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W. B. BIZZELL, President

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DIVISION OF FARM AND RANCH ECONOMICS

FARM MORTGAGE FINANCING IN TEXAS

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SYNOPSIS

This Bulletin contains analyses of information supplied by 177 financial institutions and insurance companies which make farm mortgage loans in Texas.

It was found that loans are made (1) directly to the farmer through local and district agents, (2) to farmers through local farm loan associations, (3) to farm mortgage institutions who in turn loan to farmers.

Certain institutions sell mortgages to the investing public, others sell bonds based on a collection of mortgages, and still others keep the mortgages as investments.

The 177 banks and companies investigated have a total of $252,448,122 in first mortgages on Texas farms and $1,727,382 in second mortgages. This probably represents one-half of all the farm mortgages in the state.

Farms mortgaged as security for these loans are in most cases valued at more than twice the amount of the loans.

The average interest rates charged on first mortgages by these institutions range from 5.5 per cent by the Federal Land Bank to 8.45 per cent by commercial banks.

Mortgage loans made by commercial banks run one to five years, by farm mortgage, insurance, and trust companies five and ten years, and by Federal and joint stock land banks more than thirty years.

A very large part of the loans made by farm mortgage, insurance, and trust companies, as well as by the commercial banks, are paid off in a lump sum at the end of the given period of the loan. All loans of Federal and joint stock land banks are paid on the amortization plan, or at the will of the borrower after five years. Fifteen per cent of the loans of farm mortgage companies are made on the amortization plan.

More than half the loans of farm mortgage and trust companies are used for the immediate purpose of purchasing land and making improvements. But in the case of insurance campanies and the Federal and joint stock land banks 53 to 78 per cent of the current loans are used to pay off old land mortgages.

It seems to be the opinion of a large number of these farm mortgage financing institutions that the Texas Homestead Exemption Law should either be abolished or modified, since it tends to increase the interest rates paid by farmers and often prevents borrowing when funds could be used to the economic advantage of the borrower.

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FARM MORTGAGE FINANCING IN TEXAS

V. P. Lee

INTRODUCTION

Approximately one-half billion dollars is loaned to Texas farmers[1] with land and improvements mortgaged as security, an amount equal to about 10 per cent of the total value of farm property in the state[2]. Interest on this amount, not to mention the payment of the principal, for one year at 6 per cent is thirty millions of dollars, which amounts to 6 per cent of the total value of a four-million-bale cotton crop at 25 cents a pound.

Farm mortgage financing has come to be an enormous business, and the efficiency with which this business is handled should be of vital interest to all those interested in the welfare of agriculture in the State as well as to the loaning institutions and the borrowing farmers. The problem of financing agriculture is involved in all farm production and marketing operations, and its full significance should be recognized. Recently, much more attention has been directed to marketing problems as being equally as important as farm production problems. Likewise, the methods and costs of farm financing are being analyzed as never before in the history of the country.

Borrowing capital for productive purposes is a normal practice and is followed in all business enterprises. The farmer who has the ability to use productively more capital than he owns should borrow, and certain institutions have been developed to meet his needs. The ultimate source of funds loaned is the surplus scattered here and there over the country—a surplus which, instead of being needed and applied by the owner, is loaned at interest.

Banks, insurance, trust, and farm loan companies serve to collect these bits of surplus funds from the individuals who do not desire to use them directly in businesses of their own. By far the greater part of the banks' loans are made with depositors' funds, and the farm loan company is a connecting link between the farmer and some individual or organization having surplus funds—a supervisor of the transaction. The trust company, or trustee, is a collector of surplus funds, which are passed on to those who are in position to use them in production. The insurance company has funds at all times collected from a very wide distribution of policy holders, and, rather than permit these savings in the form of premiums to lie idle, the costs of running the company are reduced by passing them on to some one who is in position to pay for their use.

It is very important to all concerned—the owner of the surplus funds, the farmer in need of capital, and the business agency which negotiates and supervises the transfer—that the business of placing capital where it is needed be done with maximum efficiency, and that methods be used

[1]U. S. D. A., Department Bulletin No. 1047, issued in 1921 estimated farm mortgage indebtedness in Texas at $442,600,000.
[2]Census, 1920, on value of farm property.

which are most satisfactory to investors and borrowers. The financing institution which is designed to serve the needs of agriculture should meet the requirements of the farmer's business. If the productivity of farmers is such that they can pay off their mortgages within five years, loans should be made available for exactly that period of time. If a period of 30 years is required, loans should be made for that term. If the farmer's business is adapted to annual payments of the loan, it is most economical for the loan to be made in this manner, and it is the function of the financing institution to find appropriate re-investments for the incoming payments. If the purpose for which the borrowing farmer wants money is not productive and there is no substantial prospect of the ability of the borrower to make it remunerative, the loan should not be made.

An analysis of farm mortgage financing in Texas should be of direct and vital interest to the investors in farm mortgages, borrowing farmers, and all farm mortgage financing institutions. The data on the following pages were collected chiefly by correspondence with banks and insurance, trust, and farm mortgage companies making loans on Texas farm lands. An attempt is made here to describe the situation as of January 1, 1924. Not all the facts are at hand, but a very substantial sample from which it seems conclusions can safely be drawn has been made available by the courtesy of the corresponding business concerns.

Summaries and averages for all institutions are presented together in the first part of this Bulletin, and these are followed by a more intensive analysis of the business of each of the different types of institutions.

SOURCES OF INFORMATION

Letters were written to all state and national banks and all joint stock land banks in Texas. A complete list of insurance companies, in and out

TABLE 1
Number of Letters Mailed to the Various Loaning Institutions, and Number Returned; Also Number Having Loans in Texas and Number Actually Filling out Schedules.

Institutions	Number Mailed	Number Returned	Number of These Having Loans in Texas	Number Filling Out Schedule
Total	1902	597	190	177
Farm Mortgage Companies...	50	18	17	14
Joint Stock Land Banks....	5	5	5	4
Federal Land Bank*	0			
Insurance Companies	274	143	39	31
Trust Companies	15	6	4	3
National Banks	573	182	60	60
State Banks	985	243	65	65

*Annual Reports of the Federal Farm Loan Board were used for information on the loans of the Federal Land Bank.

of the state, having real estate loans in Texas was obtained. The farm mortgage companies doing business in Texas could not all be located, but there is good reason to believe that the fifty indicated in Table 1 include most of the companies.

Of the 1902 companies of all kinds to whom letters were written, 597, or 31 per cent, answered. The great variation between the number answering and the number making farm mortgage loans in Texas is due to the fact that state and national banks in most cases do not make such loans and many of the insurance companies addressed had mortgages only on city real estate. Only four of the five joint stock land banks in the state answered in full, but additional information was obtained from the Annual Reports of the Federal Farm Loan Board.

AMOUNT OF FIRST AND SECOND MORTGAGES OUTSTANDING

The total, $254,175,504, indicated in Table 2 below, probably represents over one-half of all the farm mortgage loans in the State. Previous investigations[1] covering other sections of the country as well as Texas have shown that a very large percentage of farm mortgages, particularly second mortgages, is held by former owners of the land mortgaged, and other individual lenders. Hence, these figures should be accepted as highly representative of loans by all organized loaning agencies.

TABLE 2
Total and Average Amount of Texas Farm Mortgages Outstanding January 1, 1924: By Reporting Institutions.

Institutions	Total	First Mortgages	Second Mortgages	Average Amount Held by Each Institution Reporting
Total	$254,175,504	$252,448,122	$1,727,382	
Farm Mortgage Companies	57,577,408	56,683,769	893,639	$4,112,672
Joint Stock Land Banks*	33,892,271	33,892,271		6,778,454
Federal Land Bank*	90,093,950	90,093,950		90,093,950
Insurance Companies	53,112,568	53,112,568		1,713,308
Trust Companies	17,387,951	17,387,951		5,795,984
National Banks	1,100,708	704,708	396,000	18,346
State Banks	1,010,648	572,905	437,743	15,358

*Information on the amount of loans of these banks is complete. That of all other institutions is incomplete, since replies were received from only 25 to 50 per cent of the letters written them.

The striking features of Table 2 are: 1) the small proportion of second mortgages, the local banks holding far more than farm mortgage com-

[1]See **Bulletin**, North Carolina Department of Agriculture, May, 1923; Wisconsin Agricultural Experiment Station Bulletin No. 247; U. S. D. A., Department Bulltein No. 1047; and University of Kansas **Bulletin** Vol. XVII, No. 18.

panies in proportion to their loans; 2) the small amount of loans by local or commercial banks; 3) the enormous amount of loans made by the Federal Land Bank and the joint stock land banks, considering the fact that none of these were organized prior to 1917. It should be stated that there are doubtless some duplications in the reports of farm mortgage companies and insurance companies, since some of the mortgages held by the latter are secured from farm mortgage companies doing business in the State. This duplication, however, is not very great, since the insurance companies do much of their lending by direct dealing with the farmers. Moreover, a few insurance companies designated certain farm mortgage companies through which their mortgages were secured[1].

A large part of the farm mortgages held by the state and national banks is held as security for previously contracted short-time loans[2].

RATIO OF LOANS TO VALUE

The question arises as to how much can properly be loaned on a piece of land, that is, the ratio of the loan to the value of the property mortgaged. From the standpoint of the investor in farm mortgages it is important that ample security be required, and on the other hand the farmer should not attempt to borrow all his capital. The history of the farm mortgage business in this country furnishes many good examples of too liberal loans and the resulting failure of the loan companies. Moreover, something should be accumulated by the farmer before an attempt is made to buy a farm.

TABLE 3
Ratio of Loans to Value of Land and Buildings

Institutions	Per Cent Loaned on Total Value of Farm	Per Cent Loaned on Land	Per Cent Loaned on Buildings
Farm Mortgage Companies	50		
Joint Stock Land Banks		49.1	17.6
Federal Land Bank	40		
Insurance Companies		44.5	38.3
Trust Companies	50		
National Banks	50		
State Banks	50		

It seems to be the practice of the commercial banks, farm mortgage, and trust companies to place valuations upon farms as a whole, while insurance companies, joint stock land banks, and the Federal Land Bank make appraisals of land and buildings separately. The Federal Land Bank

[1]Duplication was avoided by using the data only once in these cases.

[2]The Report of the Comptroller of the Currency for 1923 shows that only about 15 per cent of the mortgages held by national banks represent original loans on land.

and the joint stock land banks appraise land and improvements separately and are allowed by law to loan up to 50 per cent of the value of land and 20 per cent of the insured value of buildings and improvements. It will be observed that the Federal Land Bank has loaned an amount equal to 40 per cent of the total value of the farms mortgaged. Appraisals are made separately, but the annual reports give the ratio of loans to combined value.

INTEREST RATES

The interest rate set on the farm mortgage represents the annual price paid for the use of borrowed capital. It should truly reflect the efficiency of the financing institution and the character of the security offered by the farmer.

Few farmers seem to appreciate fully the importance of interest rates. A $1,000 loan at 10 per cent for 10 years actually amounts to $2,000 at the end of the period, without compounding interest, while the same loan at 5 per cent amounts to $500 less at the end of the same period. Interest rates, whether so regarded or not, are just as significant as the amount of the principal.

Table 4 presents a summary of the average interest rates charged by the different financing institutions.

TABLE 4

Weighted Average Interest Rates; Highest, Lowest, and Prevailing

Institutions	Interest Rates					
	Highest		Lowest		Prevailing	
	First Mortgages	Second Mortgages	First Mortgages	Second Mortgages	First Mortgages	Second Mortgages
Farm Mortgage Companies...	8.12	8.37	6.76	7.00	6.94	7.53
Joint Stock Land Banks	6.00		6.00		6.00	
Federal Land Bank..........	5.50		5.50		5.50	
Insurance Companies	7.42		6.07		6.47	
Trust Companies	9.00		6.00		7.00	
National and State Banks...	9.22	9.15	8.03	8.25	8.45	8.99

The interest rate charged by the bank or mortgage company varies from time to time, or even at a given time. An attempt has, therefore, been made to determine the range of this variation—the highest and lowest—as well as the prevailing rate. Each rate in the table above is weighted according to the amount of loans held by the company reporting such rate. To illustrate: if only two companies are reporting, and one with one million dollars in farm mortgages reports its highest interest rates on these loans to be 10 per cent and the other with two millions in mortgages

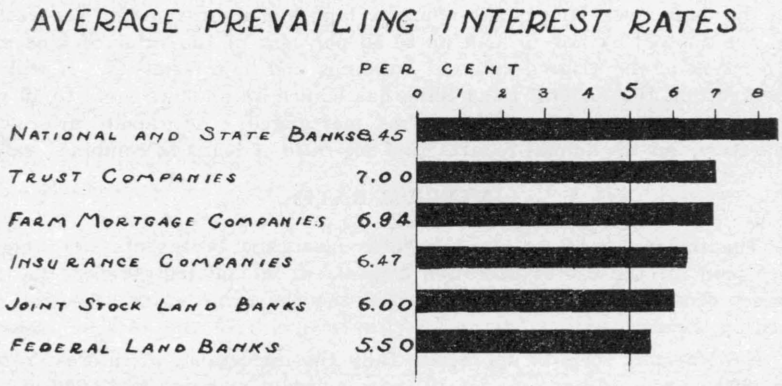

Figure 1. The average prevailing interest rate was obtained for each of the six types of loaning institutions by averaging the prevailing rates reported by each bank or company. The rate reported by any individual bank or company was given weight according to the total amount of mortgages held.

reports highest rates to be 9 per cent, the weighted average highest interest rate would be 9 1/3, not 9 1/2 per cent.

The prevailing interest is the rate most commonly charged and is, therefore, the most significant here. It represents the average[1].

It should be remembered that the Federal Land Bank and the joint stock land banks have strict minimum interest rates set by law and, further, that bonds issued by these institutions are exempt from taxation. The latter feature has given these institutions a distinct advantage over the other farm mortgage financing institutions.

THE LENGTH OF TERM OF LOANS

These loans represent capital investment, not operating expenses, and should be considered as such. A considerable period of time is required to pay the principal in addition to the yearly interest charges.

In case the loan is made for a term of years which is too short the farmer is compelled either to renew his note or liquidate his business. Renewals are expensive, uncertain, and troublesome. To be forced to sell the land to pay off the mortgage on account of inadequate time is ruinous to the individual farmer and lends to the instability of agriculture in general. The length of the loan has, therefore, a direct influence on the cost of financing and must be considered in addition to the interest rate.

[1]Any commissions or bonus charges made should of course be added to this average. No very satisfactory information was obtained as to the amount of such charges. It was estimated by C. W. Thompson in **Hearings before the Subcommittee of the Committee on Rural Credits,** 64th Congress, that in 1915 commissions and bonuses on farm mortgage loans in Texas amounted to six-tenths of one per cent annually when distributed over the period of the loan. The indications are that this figure is too high now, since there has been a tendency to reduce interest rates on farm mortgages in the state during the past ten years.

TABLE 5

Percentage of Total Loans by Each Type of Institution for the Different Terms of Years

Institutions	Term in Years									
	1	2	3	4	5	7	10	15	20	Over 30
Farm Mortgage Companies.	0.01	0.06	2.2	2.1	32.4	7.1	46.6	0.6	8.9	
Joint Stock Land Banks....										100
Federal Land Bank........										100
Insurance Companies	1.46	1.31	2.2	0.69	49.15	0.3	40.84	0.01	4.04	
Trust Companies*	10.0	10.0	10.0	10.0	10.0		50.0			
National Banks	58.2	10.4	5.4	17.9	5.3		2.3	0.5		
State Banks	62.7	4.6	7.5	0.7	22.3		2.1	0.1		

*Estimated. One company reported all loans for 10 years, one reported loans ranging from 1 to 10 years, and the third reported loans from 5 to 10 years.

It will be observed that approximately 60 per cent of the farm mortgages held by commercial banks run for only one year. This high percentage of short-time mortgages can be accounted for largely by the fact that in the majority of cases these mortgages on land are taken as additional security for short-time loans previously contracted. Almost one-half of the total amount of loans made by farm mortgage companies is made for a term of ten years, while about one-third of the amount runs five years. Insurance companies concentrated ninety per cent of their loans in the five- and ten-year periods with a slightly higher percentage running for five years. The Federal Farm Loan Act requires that the Federal Land Bank and joint stock land banks loan for a much longer period.

METHODS OF REPAYMENT OF LOANS

Closely related to the question of the length of term of loans is that of the method of repayment. It was indicated above that a farm mortgage should run for a period of time sufficiently long for the farmer to pay it by the operation of the farm. Likewise, methods of paying off the loan should be adapted to the farmer's income periods; that is, a part of the mortgage should be paid off at the end of each year. Otherwise, the farmer either fails to save for the time the mortgage falls due or, if he does save, he has a rather difficult problem of finding a suitable investment for his savings. The investment of his savings should be in the elimination of part of the principal of the loan, thereby reducing his annual interest bill.

TABLE 6

Percentage of Total Loans by Each Method of Repayment

Institutions	Per Cent by Each Method of Repayment					
	Lump Sum	Annual Payments	Partial Payment At Will	Amortization	Other	Total
Farm Mortgage Companies....	38.3	23.2	18.1	15.5	4.9	100
Joint Stock Land Banks.......				100.0		100
Federal Land Bank				100.0		100
Insurance Companies	45.7	26.2	19.3	6.4	2.4	100
Trust Companies	92.0	8.0				100
National and State Banks......	61.9	26.4	10.5	1.1	0.1	100

Table 6 indicates that a large percentage of the loans made by farm-mortgage, insurance, and trust companies, as well as by those of commercial banks, is required to be paid in a lump sum at the end of the period, while only about one-fourth of the loans call for regular annual payments.

Certain banks, insurance, and mortgage companies provide for partial payment of the loan in any amount and at any interest payment date, while others give this privilege after the loan has run a definite period of time, say three or five years.

The amortization plan of repayment of mortgage loans is growing in popularity both among the financing concerns and the borrowers. The Federal Farm Loan Act requires the Federal Land Bank and the joint stock land banks to use this method. Briefly, it consists of the repayment of a fixed sum annually or semi-annually. This sum includes both the interest payment and part of the principal, and as time goes on a larger and larger portion of this fixed sum goes to the payment of the principal and, obviously, less and less is required for interest.

PURPOSES OF FARM MORTGAGE LOANS

The purpose for which a loan is made should determine the type of the loan. If the capital is to be used to buy land or to make permanent improvements it should be for a long period of time, while if it is to pay off short-time debts or to buy supplies for yearly operations it should be of short-time duration. An attempt was made in the letters sent out to the loaning companies to find out the purposes for which farmers obtain mortgage loans. The percentages in Table 7 are made up partly from estimates made by the companies and partly from definite information which was contained in their records.

TABLE 7
Percentage of Loans for Various Purposes*

Purposes	Per Cent for Each Purpose by Institutions				
	Farm Mortgage Companies	Joint Stock Land Banks	Federal Land Bank	Insurance Companies	Trust Companies
Land Purchase	42.1	10.0	12.0	22.9	53.0
Pay Mortgages	33.5	78.0	68.0	53.3	33.0
Pay Short-Time Debts	6.6	6.0	9.0	7.4	9.0
Improvements	15.3	2.0	3.0	5.1	2.5
Supplies	0.4	0	0	5.5	2.5
Other Purposes	2.1	4.0	8.0	5.8	0
Total	100.0	100.0	100.0	100.0	100.0

*Commercial banks were not questioned on this point.

Table 7 requires some explanation. The most noticeable feature of the figures in this table is the high percentages of loans indicated as being used to pay off old mortgages. The high proportion of loans for this purpose is particularly evident in the case of the Federal and joint stock land banks and the insurance companies. These are chiefly land mortgages. As a matter of fact these old mortgages, which are being paid off by obtaining new loans, were made originally chiefly for the purpose of buying land and making improvements. It was not possible to learn the exact purposes for which the old mortgages were made, but it is only reasonable to suppose that the portion of the loans used to purchase land had about the same relation to the portion used for improvements, supplies, and to pay off short-time indebtedness, as that indicated in the present loans of these institutions. Further, it is obvious that the old mortgages were made chiefly to buy land and to make improvements since the Texas homestead exemption law forbids a homestead of 200 acres, or less, to be mortgaged for any other purposes. And it is reasonable to assume that a very large percentage of these old mortgages were made by farmers who did not have more than 200 acres.

In order to show the ultimate purposes for which the loans of these institutions were made the percentages represented in Table 7 as going to pay off old mortgages should be distributed among the other purposes; e. g., land purchase would include a large proportion of it and improvements would probably include the second largest portion and the remaining portion would be included under supplies, paying off short-time debts, and other purposes.

A loan obtained to pay off an old mortgage indicates one of two things: 1) the old loan, being made for a term too short for the borrower to be able to pay it off at maturity, is due and must be settled; or, 2) the borrower is refunding his debt in order to obtain a lower interest rate or some other advantage.

The amount of mortgage loans for the funding of short-time indebtedness is higher than might be expected, while buildings and improvements come in for a proportionately smaller amount than would be expected. The "Other Purposes" includes the purchase of fertilizer, livestock, improvements, and the payment of taxes. Also, in the case of the Federal Land Bank, five per cent of the loan goes to purchase stock in the farm loan association.

THE TEXAS HOMESTEAD EXEMPTION LAW

There has been a great deal of discussion concerning the advisability of amending our homestead exemption law. It is considered by many as out-of-date and ill-adapted to present conditions. The law prevents the mortgaging of a two-hundred-acre homestead, except for the purpose of paying the purchase price and for improvements. That is, if a Texas farmer has two hundred acres of land paid for he cannot mortgage it for any purpose except for improvements, and this is restricted to a mechanic's lien. The law is the strictest homestead law in the United States, and many con-

TABLE 8

Per Cent of Institutions Giving Various Answers to Questions on the Effect of Texas Homestead Exemption Law on Farm Mortgage Financing

Institutions	Law Increases Interest Rates			Amount of Increase in Rates		Law Reduces Number of Loans Made			Law Should Be Abolished			
	Yes	No	No Answer	0-1%	1% and Over	Yes	No	No Answer	Yes	No	Modified	No Answer
Farm Mortgage Companies	43	43	14	50	50	57	29	14	43	29	21	7
Joint Stock Land Banks		41	59			100					25	75
Federal Land Bank*												
Insurance Companies	16	20	64	50	50	32	6	62	6	26	10	58
Trust Companies	12	88				100				88	12	
National Banks	18.7	11.0	70.3		100	31.3	3.3	65.4	24.2	11.5		64.3
State Banks	14.4	14.8	70.8		100	31.7	2.9	65.4	28.0	11.1		60.9

*This bank was not questioned on the subject.

sider it, in its present form, a great handicap rather than a benefit to the farmers of the State.

The opinions of the bankers, loan, and insurance companies on this question are summarized in Table 8.

These farm financing institutions were asked: 1) Does the homestead exemption law of Texas tend to increase the general rate of interest on the farm mortgages in the state? 2) If it does increase the interest rate, how much? 3) Does the law reduce the number of mortgage loans made? 4) Should the law be abolished, or should it be modified, or should it remain as it is? It will be observed from the above table that the majority of the institutions refrained from answering this question. The failure of the insurance companies to answer questions on the homestead exemption law was due in many cases to their unfamiliarity with conditions in the State as affected by the law, since the majority of these companies are not located in Texas.

Of the national banks answering the question as to whether the law increases interest rates, more than half answered in the affirmative, while exactly one-half of the farm mortgage companies held this view. The majority of the other banks and companies said interest rates were not actually increased.

It should be observed that over two-thirds of the state and national banks think the law should be abolished. Over two-thirds of the mortgage companies which answered at all, think the law should either be abolished entirely or modified.

A very considerable number of these banks and companies discussed this question at some length and in the great majority of these cases it was pointed out that the law in its present form is obsolete. These discussions may be summarized as follows: 1) the acreage exempted is too large, the law having been passed originally at a time when larger farms were more common; 2) a large equity which should be available as security for loans to improve the farm is tied up;[1] 3) since the law is impracticable there is a vast amount of evasion.

[1]It was pointed out in this connection that the very farmers who have shown enough initiative and industry to acquire a farm are penalized by the law, being compelled in many cases to sell the land at a sacrifice.

DETAILED ANALYSIS OF FARM MORTGAGE FINANCING BY INSTITUTIONS

It is hoped that a survey of the preceding pages of this Bulletin is sufficient to give a bird's-eye view of the Texas farm mortgage business as a whole. The object here is to give a more detailed picture of the business done by each of the different types of institutions. Statements made in the brief summary which are not thoroughly clear may be clarified in the following more detailed discussions.

FARM MORTGAGE COMPANIES

The farm mortgage bankers have rendered a great service in the development of agriculture in this State. They represent the one type of institution organized strictly by private initiative for the purpose of making loans on farm lands. A description of the business of these companies affords an opportunity to analyze: 1) their functions; 2) the location of the companies and the investors; 3) the amount of their loans; 4) the systems of land appraisal; 5) the interest rates which farmers pay, and the rates paid to investors; 6) the purpose of the loans; 7) the length of term for which they run, and the method of repayment; 8) the work of district and local agents; 9) their foreclosures.

Functions of the Farm Mortgage Company

A proper understanding of the functions performed by the farm mortgage company may be had by classifying them under three distinct heads: 1) to make loans on farm lands; 2) to sell mortgages, or bonds issued on the basis of a collection of mortgages; 3) to care for the investment while the mortgage is maturing.

Making Loans: There are four distinct phases to the making of loans. First, connections have to be established with prospective borrowers, which is done chiefly by advertising in newspapers and magazines and by maintaining local agents who are well acquainted with the land and the borrowers in their locality. Secondly, the work of properly appraising the value of the farm to be mortgaged is a great task in itself and trained appraisers are required for the job. Thirdly, an investigation of the mortgagor's title and the preparation of an abstract are necessary. Lastly, the loan is advanced to the borrower and the papers recorded in the files of the company.

Selling Mortgages: The second function as indicated above is that of finding investors for the mortgages. It is probably not generally realized that farm mortgage companies pass practically all of their mortgages on to other business organizations and to individual investors. Here again is the task of establishing connections, which is likewise done by various advertising methods and by maintaining agents in investment centers. The reputation of the company for conservative appraisals and sound judgment is its chief asset in the matter of finding investors for its mortgages. There remains then the process of actually negotiating the sale of the mortgage, or the bonds based on the mortgage.

Caring for Investments: The third function of the mortgage company is that of caring for the investment while the mortgage is maturing. This function is, likewise, not generally understood. The service rendered here distinguishes the farm mortgage banker from the commission man and broker, who merely establish connections between buyer and seller or investor and borrower. In the first place, the mortgage banker looks after the security from the day the loan is made to the day it is paid off. He must see that the taxes on the land mortgaged are paid each year. He must see that the property does not depreciate in value by slack methods of farming or by the depreciation of buildings and, if buildings and other improvements are included in the original appraisal, he must see that the insurance is kept up. Secondly, it is the work of the banker to collect and pass on to the investor the annual or semi-annual interest payments, and to collect and pass to the investor the amount of the loan at maturity. In the third place, because of the practice of most farm mortgage companies to guarantee the payment of interest and the loan itself in case of default of the borrower, these companies often advance funds to the borrower for payment of taxes, insurance, and interest and charge it to the farmer's account[1]. This procedure has two great advantages: 1) it makes it possible for the borrower to pull through a hard year without fear of a foreclosure and forced sale of his farm; 2) it adds greatly to the attractiveness of the farm mortgage as an investment.

Location of Companies and Investors

Of the fifty companies which are indicated as doing business in Texas, and to whom letters were sent, 39 are located in Texas, four in Oklahoma, three in Missouri, two in Illinois, and one each in Colorado and Louisiana. Of the fourteen which actually gave information, all, except one, are located in Texas,—three in San Antonio, three in Fort Worth, and one each in Austin, El Paso, Wichita Falls, Amarillo, Sherman, Palestine, and Lancaster. One of the 14 is located in Oklahoma City. It should, therefore, be remembered that most of the information presented here concerning farm mortgage companies comes from companies located in the State, whereas a considerable amount of the loans actually made in Texas are made by out-of-state companies.

It has been pointed out above that farm mortgage companies supply only a small part of their loans from their own capital. Seven of the larger companies having a total of loans in force amounting to $49,835,808 have a total capital and surplus of $1,175,734, or 2.36 per cent of their loans. Moreover, according to the reports from eight companies having loans amounting to more than $45,000,000, only 0.54 of one per cent of this amount was actually held by them on January 1, 1924. Hence, practically all the capital is obtained from other sources by the mortgage companies.

[1]Robins, K. N., "The Farm Mortgage Handbook", pp. 67-71; Putnam, Geo. E., "The Land Credit Problem", Bulletin of the University of Kansas, Vol. XVII, No. 18, p. 28.

The mortgages are sold to individuals, insurance companies, and business organizations having surplus funds.

Unfortunately, not much detailed information was obtained concerning these investors. It was found that one company passes practically all its mortgages on to a British investment concern while others indicated that certain insurance companies of the North and East take the mortgages. The great bulk of funds for these loans to farmers comes from outside of the State. A summary of the reports of nine of the larger companies shows that 91.8 per cent of the total amount of their mortgages is sold outside the State. Of the remaining 8.2 per cent, 2.3 per cent is sold in Texas but outside the counties in which the companies are located, and 5.9 per cent in their home counties.

Amount of Loans

The twelve companies which reported the amount of loans in force had $57,577,408 outstanding January 1, 1924, less than one million of which was secured by second mortgages. This sum probably represents well above ten per cent of the total farm mortgage indebtedness of the State.

Five of these companies had loans in force amounting to less than 2½ millions of dollars each, three had 2½ to 5 millions each, one had between 5 and 7½ millions, one between 7½ and 10 millions, and two had over 10 millions of dollars outstanding. Since most of these loans run for five-and ten-year periods, it is obvious that the larger companies make loans amounting to well above a million dollars a year.

Appraisals

To the casual observer the determination of the value of a farm seems simple and, since the loan company only loans 50 to 60 per cent of its value, appraising it should be a small matter. But upon closer examination it is found: 1) that 50 to 60 per cent does not leave such a wide margin of security, since in case of a forced sale under foreclosure much less than the actual value must often be accepted; 2) that land values in a particular locality may decline; 3) that, far from being a simple process, the accurate determination of the value of a piece of land is a very complex problem.

There are two main bases used by these companies for appraising the value of a farm: 1) the sale price and; 2) the value based on the productivity of the land. Since in many cases land is not being sold at the time the loan is made, the appraiser or inspector for the company must arrive at the sale price either by what the land sold for the last time it changed hands or by the price at which the land in the surrounding community is actually selling at the time. The former method is not accurate, since land values have probably changed, and the latter method is somewhat difficult since land prices often vary considerably within the same community.

The more scientific basis for land appraisal is its productivity, but productivity varies from year to year. The problem is further complicated by the fact that not only does land vary from year to year in the amount of

Inspector's Report

I certify that on the 24th., day of June 1924. I inspected the farm of John Blank occupied by owner and family (If rented state to whom and on what terms) in A- Certain County, State of Texas containing 320 Acres described as follows: Being all of the South one- half of Section # 34, of a subdivision of of the Palo Alto Grant, of land- being located 6 miles West (State direction) from A. Town the nearest railroad station.

SURFACE:—	CULTIVATION:— Cultivated (To include Alfalfa and clover but not tame hay)	Tillable (but not in cultivation)		Not Tillable	SOILS:— Note:—State color—black, brown, chocolate, red or gray, and whether it is of a waxy, loamy, sandy, or gravelly nature. Also give nature of the subsoil:—
Upland 320 Acres	290 Acres	30 Acres	Acres	No Acres	320 acres deep black waxey soil, no gravel and has a good clay sub-soil.
	Level 290 A	Level 30 A	Tame Hay A	Rough or Broken A	
	Undulating A	Undulating A	Native Grass A	Stony A	
	Hilly A	Hilly A	Pasture 20 A	Low or Wet A	
			Timber 10 A	Creek A	
Slope None Acres	Acres	Acres	Acres	Acres	
	Level A	Level A	Tame Hay A	Rough or Broken A	
	Undulating A	Undulating A	Native Grass A	Stony A	
	Hilly A	Hilly A	Pasture A	Low or Wet A	
			Timber A	Creek A	
Valley None Acres	Acres	Acres	Acres	Acres	
	Level A	Level A	Tame Hay A	Rough or Broken A	
	Undulating A	Undulating A	Native Grass A	Stony A	
			Pasture A	Low or Wet A	
			Timber A	Creek A	
Bottom None Acres	Acres	Acres	Acres	Acres	
1st Bottom A	Level A	Level A	Tame Hay A	Rough or Broken A	
2nd Bottom A	Undulating A	Undulating A	Native Grass A	Stony A	
			Pasture A	Low or Wet A	
			Timber A	Creek A	
Totals 320 Acres	290 Acres	30	Acres	No Acres	All choice soil & subsoil

All questions must be answered. Blanks will not be acceptable.

Roads:— Does land bound on public road? Yes If not is there right of way? Public Pike Road

Drainage:— Is land included in any drainage district? No If so is it subject to assessment? No
Give amount of unpaid balance No When payable? No
Is land tiled? No Any additional tiling necessary? No

Levees:— If in levee district answer question similar to those relating to drainage No

Overflow:— State acreage affected, damage to crops, occasional or periodical No

Fences:— Is land fenced? yes Fully or partially? Fully

Coal and Oil Leases:— If coal, oil or other operations are carried on, describe and state area of land so occupied No.

Purchase Price:— Year bought? 1922 Price paid? $40,000- $28,000 cash-$12000 notes.

Applicant:— What is his reputation and financial responsibility? Well recommended in every way-

Crop Report:— During the crop year 1923 the land produced as follows: (Give figures for last crop harvested)

40	Acres	Corn produced (HomeUse)	1200 bushels	worth about $ 800.00	at $ .75	per bu.
No	"	Wheat		" " " $	" $	" "
No	"	Oats		" " " $	" $	" "
10	"	Kaffir or Milo as forage)	30 tons	" " $ 450.00	" $ 15.00	" Ton
5	"	Hay sorgham & sudan	10 tons	" " $ 100.00	" $ 10.00	" ton
235	"	Cotton	104 bales	" " $10400.00	" $ .25 av.	" lb.
30	"	Pasture worth per year own stock run-		$		
No	"	Other crops produced value of		$		

Total Acreage produced crops worth $ 11,750.00

VALUATION

If lands are not contiguous give valuation of each tract on separate riders, for which, forms are provided.

LAND (Classified areas being by estimation only)

290 acres	Cultivated (Classification)	@ 125	per acre $ 36,250.00	
30 acres	Till. Past.	@ 50	per acre $ 1,500.00	Total $ 37,750.00
acres		@	per acre $	
acres		@	per acre $	
acres		@	per acre $	
acres		@	per acre $	

BUILDINGS (Value each one separately)

Six room dwelling with porch- 40x 50 (Give size, material, condition and age)	$ 1200.00	
Barn 40 x 40 ft. with sheds.	$ 600.00	Total $ 2,250.00
Labor houses, implement sheds etc.	$ 450.00	

Total $40,000.00

From the character and condition of the farm and the reputed credit and responsibility of the applicant I believe a loan of $ 12,000.00 on it would be well secured, and that such a loan would prove satisfactory in every respect.

Remarks:— The above security is well located in one the best farming sections in Texas, is composed of good class of black waxey soil, very productive, and in perfect state of cultivation and fairly well improved as to houses. Applicant is a man of good standing.

The foregoing report is confirmed 6/28th./ 1924

TEXAS FARM MORTGAGE & INVESTMENT COMPANY
By President. Correspondent

Land Inspector
Texas Farm Mortgage & Investment Co.

Figure 2. Copy of an actual report made June 24, 1924, by an inspector of the Texas Farm Mortgage and Investment Company of San Antonio, Texas. The names of the prospective borrower and the inspector were purposely omitted by the company.

commodities it will produce, but the prices of these products vary widely from time to time. Another point which must be considered by the appraiser is that the productivity of the land is different with different farmers in charge. Hence, the ability of the borrower as a farmer must be considered. It should, therefore, be clear that the scientific appraisal of a farm requires many facts and a high degree of skill and judgment on the part of the appraiser.

With the permission of one of the larger Texas companies a copy of an appraisor's or inspector's report made on June 24, 1924, for an actual transaction is presented in Figure 2. Observe the systematic arrangement of facts concerning the property: 1) the location, the surface, the state of cultivation, and the soils; 2) the improvements, coal and oil leases, the purchase price and the reputation of the applicant; 3) the crop report including the amount and value of each crop; 4) the actual appraisal, the above facts being used as a basis.

Interest Rates

Average Rates: Interest rates affect borrowers, investors, and mortgage companies; therefore, the rates paid by the farmers, the rates received by the investors, and the margin received by the bankers will be discussed together. According to the reports of the farm mortgage companies they charge the borrowers an average prevailing interest rate of 6.94 per cent on first mortgages and 7.5 per cent on second mortgages. The average prevailing rates paid to investors on first and second mortgages combined is 6.2 per cent. The nominal rate to cover the costs of operation is, therefore, probably less than one per cent. Frequently certain commissions and bonuses are required when the loan is made and again in case of renewal of the note, and these charges should of course be added to the interest rate to obtain the full cost of the loan. The figures in Table 9 include only the straight interest rates as reported by the mortgage companies.

Range of Rates on First Mortgages:[1] It was indicated above that the average prevailing interest rate charged on first mortgages is 6.94 per cent, but since an average does not give all facts which may be of value, the range of interest rates will be shown. Each company was asked to give its highest, its lowest, and its prevailing rate on first mortgages. The average highest rate on first mortgages is 8.12 per cent[2], and the highest rate charged on any loan is 10 per cent. The average lowest rate is 6.76 per cent, and the lowest rate charged on any loan is 6.5 per cent. Figure 3 shows the average of the highest, lowest, and prevailing rates on first mortgages reported by farm mortgage companies.

The prevailing rate, however, is the one which is the most commonly charged and is of much more significance than is an exceptionally high or low rate charged on an occasional loan. Hence, a fuller analysis was made

[1]Second mortgages held by these companies are relatively insignificant, the total of such loans being only $803,516. The average rate on second mortgages, as indicated above, is 7.5 per cent, and the range of rates is from 7 to 10 per cent.

[2]This average was calculated by weighting each highest rate reported according to the total amount of all the loans of the company reporting.

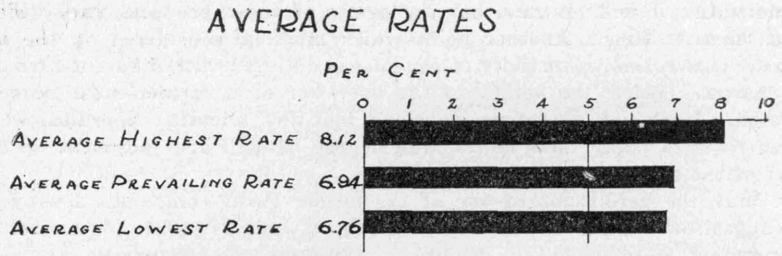

Figure 3. Average highest, lowest, and prevailing interest rates of farm mortgage companies. Each company reported its highest, lowest, and prevailing rate. Averages were obtained by weighting the rate reported by each company according to the total mortgage loans of the company.

of prevailing rates. Three of the larger companies reported 6.5 per cent as their most usual rate, two reported 7 per cent, one reported 7.5 per cent, five reported 8 per cent, and one reported 10 per cent. Table 9 shows the amount and the per cent of total loans made by companies reporting each of these prevailing rates on first mortgages.

TABLE 9

Per Cent of Total Loans by Farm Mortgage Companies Reporting Various Prevailing Rates on First Mortgages

Prevailing Interest Rates	Total Amount of Loans by Companies Reporting Each Rate	Per Cent of Loans by Companies Reporting Each Rate
Total	$56,683,769	100.0
6½	28,445,169*	50.2
7	15,350,000	27.1
7½	4,000,000	7.0
8	8,788,600	15.5
10	100,000	0.2

*This does not mean that loans amounting to $28,445,169 were made at 6½ per cent, but it means that companies whose total loans of all kinds amounted to $28,445,169 reported that their prevailing rate is 6½ per cent.

It will be observed that companies having only two-tenths of one per cent of the first mortgage loans reported indicated that the prevailing or most usual interest rate charged is 10 per cent, while companies having 50.2 per cent of the loans indicated a prevailing rate of 6.5 per cent. By weighting all the prevailing rates according to the amount of loans by companies reporting each rate the weighted average prevailing interest rate of 6.94 per cent was obtained. A close study of Table 9 should give a definite idea of the range of the prevailing interest rates of the farm mortgage companies operating in Texas. The relative importance of each of the prevailing rates reported is graphically shown in Figure 4.

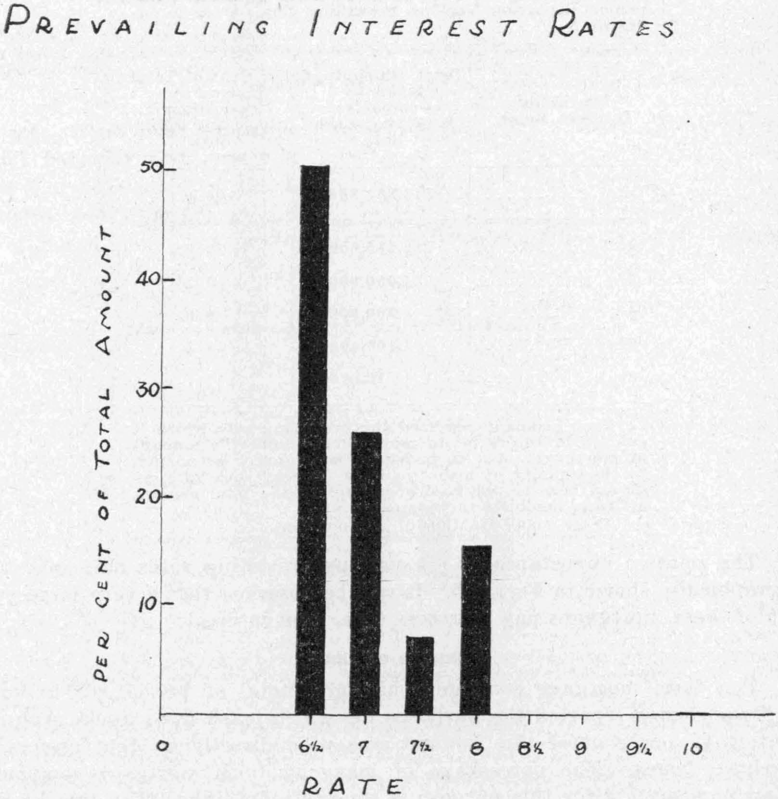

Figure 4. This chart shows the percentage of the total of all mortgages reported by farm mortgage companies which was reported by companies having prevailing rates of 6.5, 7.0, 7.5, 8.0, and 10.0 per cent.

Rates to Investors: In Table 10 the prevailing interest rates which are paid to the investors in these farm mortgages are analyzed in a similar manner. Companies having 73.5 per cent of all loans reported indicate that their mortgages most commonly pay investors 6 per cent interest. The weighted average prevailing, or most usual, rate is 6.2 per cent, and the range of prevailing rates reported by these companies is from 6 to 8 per cent.

TABLE 10

Amount and Per Cent of Loans Made by Eight Companies Reporting Various Prevailing Rates Paid to Investors*

Prevailing Interest Rates	Total Amount of Loans by Companies Reporting Each Rate	Per Cent of Total Loans by Companies Reporting Each Rate
Total	$43,951,808	100.0
6	32,285,808	73.5
6½	4,050,000	9.2
6¾	3,500,000	8.0
7	4,100,000	9.3
8	16,000	**

*Each company reported the prevailing rate which it paid to investors in its mortgages. Since the amount of mortgages sold to investors is in direct proportion to the amount of loans made to farmers each rate reported here is weighted according to the total amount of loans made by the company.

**Very small fraction of one per cent.

The relative importance of the various prevailing rates paid investors is graphically shown in Figure 5. It will be observed that a very large portion of these mortgages pay investors 6 per cent interest.

Purpose of Loans

Ten farm mortgage companies having a total of $49,551,808 in loans on Texas farms reported the purposes for which loans were used. Approximately 42 per cent of this amount was used directly by the farmers to purchase farms. The percentage of loans by farm mortgage companies going immediately for this purpose is considerably higher than that of any other types of institutions[1] making loans on farm land, except the trust companies[2]. On the other hand, the percentages of loans by these companies for the payment of old mortgages[3] held by borrowers is less than that of the other loaning agencies, except the trust companies. Thus, 78 per cent of the amount of the loans by the Federal Land Bank, 68 per cent of the

[1]See Table 7 above.

[2]It should be remembered that only three trust companies reported, which is not an adequate sample.

[3]Indirectly, of course, for the purchase of land, improvements, etc. See discussion of purposes for which old mortgages were originally made following Table 7.

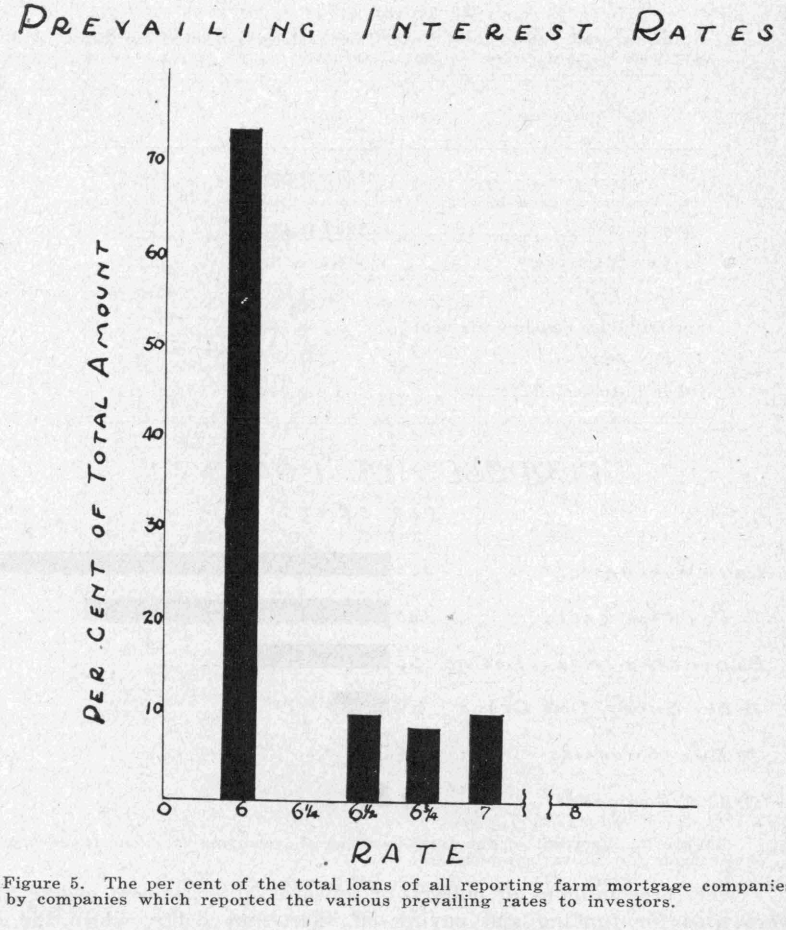

Figure 5. The per cent of the total loans of all reporting farm mortgage companies held by companies which reported the various prevailing rates to investors.

joint stock land bank loans, and 53 per cent of the loans of the insurance companies went to pay off old mortgages, while only 33½ per cent of the amount of these farm mortgage companies' loans went for this purpose. Over 15 per cent of the loans of these companies went for buildings and improvements, and the next highest percentage for these purposes is that of the insurance companies, which is slightly over five.

Table 11 shows the amount and per cent of the total loans going for the various purposes.

TABLE 11

Amount and Per Cent of Total Loans Made by Reporting Farm Mortgage Companies for Various Purposes

Purposes	Amount	Per Cent of Total
Total	$49,551,808	100.0
Land Purchase	$20,842,472	42.1
To Pay Mortgages	16,591,599	33.5
To Pay Short-Time Debts	3,272,532	6.6
For Buildings and Improvements	7,554,705	15.3
To Buy Supplies	215,500	0.4
Other Purposes	1,075,000	2.1

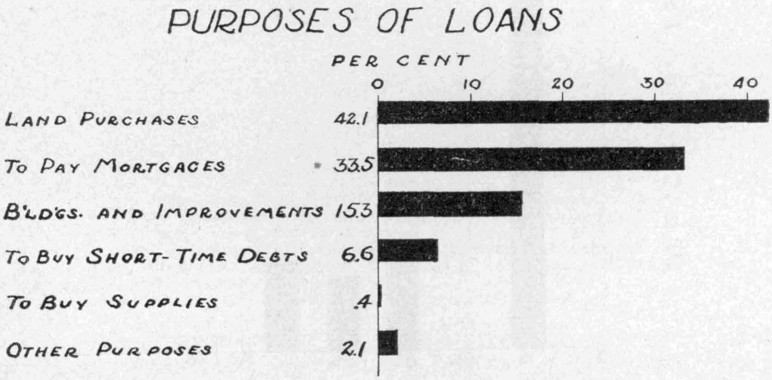

Figure 6. Per cent of the total loans of all reporting farm mortgage companies made for the various purposes.

Over three millions of dollars, or upwards of 6 per cent of the total, were used for funding and paying off short-time debts, which the borrowers had contracted with merchants, commercial banks, and individuals. Slightly less than one-half of one per cent was used to buy supplies, such as feedstuffs and seed, and to pay family expenses. "Other Purposes" includes the purchase of machinery and livestock and the payment of interest, insurance, and taxes.

The Term and Repayment of Loans

Length of Term: All of the 14 reporting companies indicated the percentage of outstanding loans which was made for periods varying from one to twenty years. From these percentages and the amount of loans of each company a summary of the per cent and the amount for each term was calculated. It was found that $26,857,954, or 46.6 per cent of the total, was loaned for a term of ten years, and $18,686,809, or 32.4 per cent, for five years, the two terms covering 79 per cent of all loans. The next most important term is twenty years, followed closely by the seven-year term. Exactly 16 per cent of the total amount of all loans falls within these two periods.

TABLE 12

Amount and Percentages of Total Loans by Reporting Farm Mortgage Companies Classified According to Length of Term*

Term of Loans in Years	Amount Loaned for Each Term	Per Cent of Total Loans
1..............	$ 3,200	0.01
2..............	31,802	0.06
3..............	1,237,873	2.2
4..............	1,155,663	2.1
5..............	18,686,809	32.4
7..............	4,100,000	7.1
10..............	26,857,954	46.6
15..............	357,531	0.6
20..............	5,146,576	8.9
Total	$57,577,408	100.00

*Weighted arithmetic average length of loan is 8.57 years.

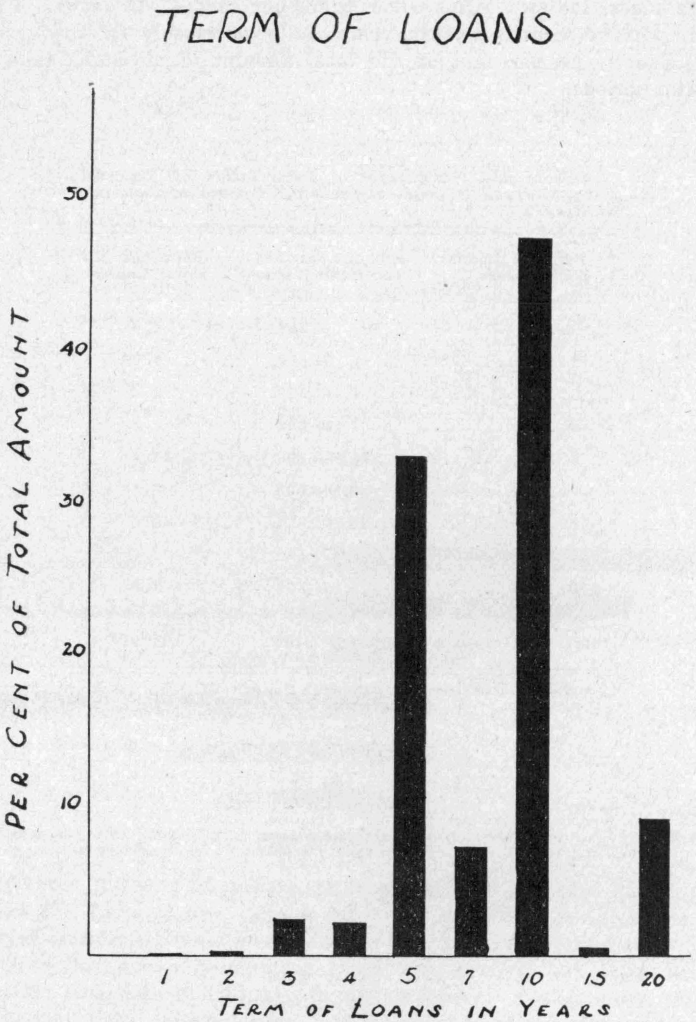

Figure 7. Percentage of the total loans reported by farm mortgage companies made for various periods from one to twenty years.

Table 12 and Figure 7 show the relatively short term of these loans, and the characteristic clustering of loans at the round number periods of five, ten, and twenty years.

Methods of Repayment: Closely connected with the question of length of period for which loans are made is that of the method of paying off the mortgage. Not all the companies reported on this question but approximately 40 per cent of the loans of those reporting is paid in a lump sum at the date of maturity, slightly less than one-fourth by regular annual payments, and over 18 per cent by partial payments whenever it is convenient for the borrower. That the amortization plan of paying off loans is coming into prominence is indicated by the fact that these companies have loans in force under this plan amounting to $5,504,107, or 15.5 per cent of all their loans.

TABLE 13

Amount and Percentage of Total Loans by Reporting Farm Mortgage Companies by Each Method of Repayment

Methods	Amount	Per Cent
Lump Sum	$13,638,603	38.3
Annual Payments	8,242,489	23.2
Partial Payments at Will.......	6,442,208	18.1
Amortization	5,504,107	15.5
At Will After a Certain Period..	1,750,000	4.9
Total..................	$35,577,407	100.0

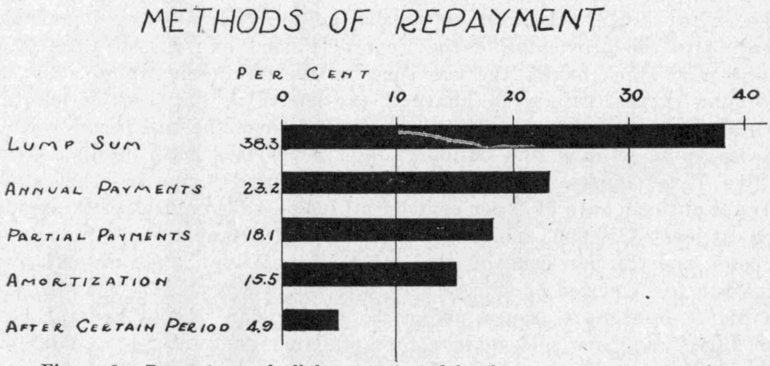

Figure 8. Percentage of all loans reported by farm mortgage companies according to the method of repayment required.

Agents

Most of the farm mortgage companies maintain local agents. The number of these agents ranges from seven to thirty-five, with the exception of one large company, which has one hundred and fifty representatives in the farming communities of the State. These agents are very frequently business and professional men, such as lawyers, abstractors, insurance agents and bankers, who take the farm mortgage agency as a supplement to their regular business. They establish local connections, make preliminary appraisals and represent the mortgage company in any transactions with borrowers, receiving compensation usually in the form of a certain commission on the loans negotiated. The most usual commission is two per cent, the range being from one to three per cent of the amount of the loan. Commissions are paid in most cases by the company.

Three of the larger companies also have district officers who supervise the work of the local agents in particular sections of the State. One company has one, another has two, and the third has ten district officers.

Foreclosures

Five of the 14 companies reported foreclosures for the year 1923. The total amount of the mortgages involved is $531,800, or .09 per cent of the total loans of all the companies. About one-fourth of this amount had been settled by December 31, 1923, with no losses to the companies.

JOINT STOCK LAND BANKS

Five joint stock land banks were operating in Texas January 1, 1924, with loans in force amounting to $33,892,271, or an average of $6,778,454 per bank. Two of the five are located in Dallas, two in San Antonio, and one in Houston. Three were established in 1919, one in 1922, and one in 1923.

The Federal Farm Loan System of the United States is composed of twelve Federal land banks and, at the end of 1923, seventy joint stock land banks. All are under the direct supervision of the Federal Farm Loan Board according to the provisions of the Federal Farm Loan Act of 1916. Concerning joint stock banks, the law specifies the minimum capital stock, the maximum interest rate to be charged, the length of the term of loan and the method of repayment. Furthermore, it defines the maximum ratio of loans to value of land and buildings, and supervises bond issues. Hence, the five Texas banks, just as the joint stock land banks in other states, charge a uniform rate of 6 per cent on all loans, have capital stock amounting to at least $250,000, and loan a maximum of 50 per cent of the value of the land and 20 per cent of the value of buildings and improvements. Loans run for a period of thirty-three years, and are paid on the amortization plan. Bonds are issued under the supervision of the Federal Farm Loan Board, and are sold to investors at 5 per cent interest[1]. While the law creating these banks is specific in certain requirements, there are some facts of interest concerning the actual operations of the five Texas banks.

Capital Stock and Loans

Although each joint stock land bank is required to have a minimum capital stock of only $250,000, the five Texas banks had a total capital stock of $2,867,000, or an average of $573,400 per bank. Since the total loans of these banks on January 1, 1924, amounted to $33,892,271, the ratio of loans to capital was 11.8 to 1. Some such ratio must be maintained since the law providing for the creation of these banks limits the outstanding bonds of the bank to fifteen times the amount of its capital and surplus. This

[1]Authority was obtained to issue bonds at 5½ per cent but a very small amount has been issued at this rate.

provision is a protection to the holder of the bonds and a restriction upon the bank in over-expanding its loans. Hence, as a bank's business expands its capital stock must be increased accordingly. The largest one of the five Texas banks has loans amounting to more than $15,000,000, and has a capital stock of over $1,000,000.

Appraisals and the Ratio of Loans to Value

Appraisals are made for these banks by Federal appraisers specially appointed by the Federal Farm Loan Board for each bank. Three banks reported the number of appraisers operating in Texas. One bank had six, another had three, and the other had one.

The law requires that the earning power of the farm shall be the principal factor in determining its value. Rather than use the production for a single year, an attempt is made to determine the average production, and the average prices of products, over a series of years. The rental value of the farm is often used as an index to the power of the farm to produce a profit sufficient to pay off the loan. The sale price of the land is also considered. Another important item affecting the appraisal is the so-called moral risk, or the character and ability of the borrower.

After a value is placed on the farm, a loan, not to exceed 50 per cent of the value of the land and 20 per cent of the permanent insurable improvements may be recommended by the appraiser. The executive committee of the bank either approves or rejects the loan upon the basis of the appraiser's full report on the property. This report must also be approved by the Securities Division of the Federal Farm Loan Board before the mortgage can be used as a basis for a bond issue.

District Officers and Local Agents

The number of local agents maintained by these banks varies from time to time, and no definite data could be obtained on this point. The most usual commission paid these agents is one per cent of the amount of the loan, while some are paid only one-half of one per cent.

Two joint stock banks indicated that district or branch offices are maintained over the State. One has seven branches in the leading towns and cities and the other has two.

Interest Rate and the Length and Repayment of Loans

Only first mortgages are taken and a uniform interest rate of 6 per cent is charged. Loans run for a period of about thirty-three years, with the privilege of paying off the note in full at any interest payment date after the loan has run five years. Payments on the loan are made on the amortization plan, the borrower paying 6 per cent interest and 1 per cent on the principal annually, or semi-annually, retiring the loan at the end of thirty-three years. The borrower pays the attorney's fee for examination of land title, the cost of inspection of the land, and the recording of papers.

Purpose of Loans

Two of the banks having over 65 per cent of the total loans of all joint stock land banks in the State made estimates of the purposes for which their loans were made. One bank loaned 10 per cent for land purchase, 80 per cent for the payment of old mortgage indebtedness,[1] 5 per cent to pay off short-time obligations, and 5 per cent for buildings and improvements. The other reporting bank estimates that 98 per cent of the total amount of its loans was used for the purpose of paying off old mortgages, and 2 per cent for buildings and improvements.

Bond Issues and Sale

These banks issue and sell bonds secured by a collection of farm mortgages instead of selling the mortgages, as is done by the regular farm mortgage companies. For instance, if a joint stock bank is in need of $500,000 to loan it presents an equal amount of farm mortgages to the farm loan registrar at Houston who, with the approval of the Federal Farm Loan Board at Washington, deposits the mortgages as security for a bond issue. Only first mortgages are acceptable, and the bond issue must amount to at least $50,000. Bonds outstanding at any given time must not be more than fifteen times the amount of capital and surplus of the bank.

Bond issues of the reporting banks range in size from $100,000 to $3,750,000, the frequency and size of issues depending upon the requirements of the bank. According to the reports of these banks all the bonds are sold outside the State. The practice is to turn the whole issue over to the big investment companies, who advertise and sell them to the public for the bank for a stipulated commission. A large part of all these bond issues is sold by bond or investment houses located in the large cities of the North and East, particularly in New York City.

The bonds uniformly bear 5 per cent interest[2], payable semi-annually by the bank. There has been very little difficulty in marketing these bonds, since they are based on very sound security and are exempt from taxation. They are secured by first mortgages representing less than one-half the value of farms as determined by Federal appraisers.

Foreclosures

Three banks reported that no foreclosures occurred during 1923. One bank had two or three minor foreclosures during this year, with no loss to the bank.

THE FEDERAL LAND BANK

Although the Federal land banks and the joint stock land banks are supervised by the Federal Farm Loan Board, there are certain outstanding differences in the organization and operations of these two types of banks. First, the joint stock banks are organized by private initiative and are

[1]See discussion of purposes for which old mortgages were originally made following Table 7.

[2]A few issues were made at 5½ per cent, but practically all these bonds to date have been sold at 5 per cent.

operated with private capital, while the Federal land banks were organized by the Federal Government, which furnished the original capital stock. Secondly, the joint stock banks loan directly to farmers, whereas the Federal land banks make loans through national farm loan associations or through banks acting as agents. Thirdly, loans may be obtained from joint stock banks by farm owners who are not farmers, while Federal land banks may loan only to actual farmers who are actively engaged in operating the farm mortgaged.

The state of Texas comprises District Number 10 of the Federal Farm Loan System of the United States. There are twelve districts in the country, each of which is served by a Federal Land Bank, Houston being selected as the location for the Texas bank.

Loans

Amount and Growth of Loans: The Houston bank began doing business in 1917, and at the end of 1923 it had made loans to 32,928 Texas farmers amounting to $96,605,891. The $90,093,950 remaining in force December 31, 1923, represents almost three times the total amount of loans of the five joint stock land banks in the State. Over 8,000 loans amounting to $22,239,100 were closed during 1923.

The growth of the business of the Houston bank is indicated in Figure 9.

A comparison of the growth of the combined loans of the twelve banks of the United States with that of the Houston bank can be made from Table 14.

TABLE 14

Amount Loaned in the United States and Texas by Federal Land Banks From Organization to the End of Each Year, Including 1923

Year	United States	Texas
1917*	$ 29,824,655	$ 1,145,345
1918*	147,452,861	13,588,461
1919*	282,007,781	31,408,401
1920**	369,242,464	40,816,066
1921*	441,859,940	48,514,291
1922**	684,407,289	74,366,791
1923**	876,490,304	96,605,891

*To November 30th.
**To December 31st.

It will be observed that at the end of 1923 the Houston bank had loaned approximately 11 per cent of the total loaned by the twelve Federal land banks of the country. These figures represent the total amount which had been loaned at the end of each year. A part of this amount had of course been paid off, since annual or semi-annual payments upon the prin-

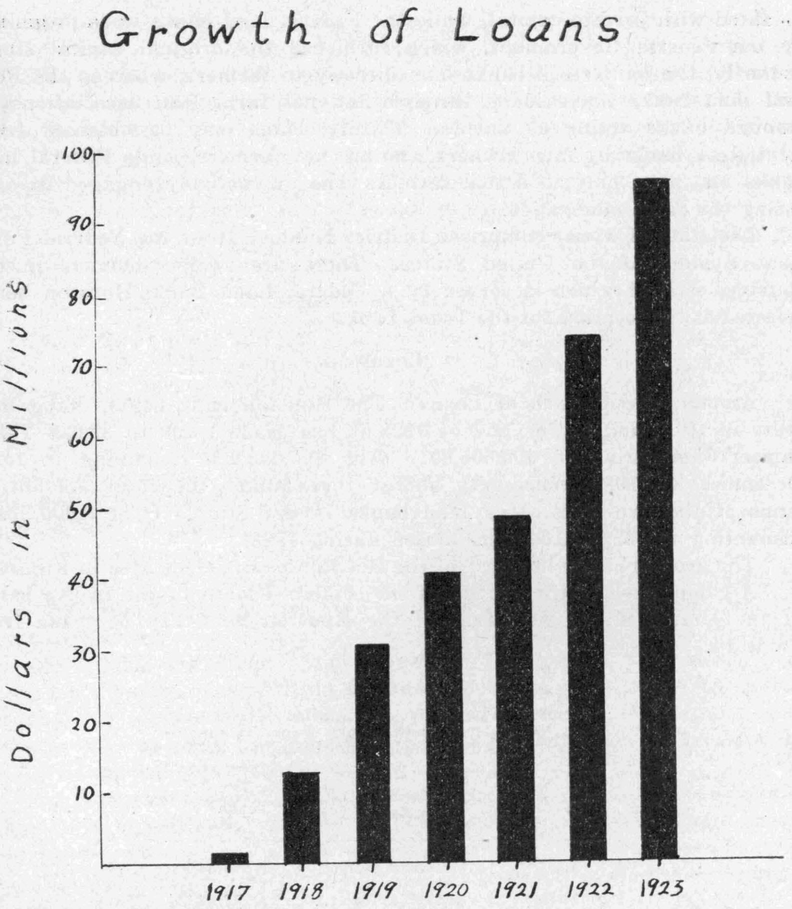

Figure 9. Total amount of loans made by the Federal Land Bank of Houston from the date of organization up to the end of each year from 1917 to 1923, inclusive.

cipal begin the first year after the loan is made. Some loans have been paid in full. Thus, the twelve banks had a total of $799,596,835 of loans in force December 31, 1923, the borrowers having paid approximately $77,000,000. In Texas, loans amounting to $90,093,950 remained in force at this date, over $6,000,000 having been paid.

For every loan that is made the borrower must purchase an amount of stock in his local association equal to 5 per cent of the loan. In turn, the local association buys that amount of stock in the bank. Since the law sets the limit of the bond obligations of the bank at twenty times the amount of its capital and surplus, and since 5 per cent of every loan must be used to purchase capital stock, the loaning power of the bank is limited only by its ability to market bonds.

At the end of 1923 bonds had been issued to the amount of $91,769,000. The capital stock of the bank amounted to $4,629,230, and was all owned by the borrowers. The reserve and surplus was $560,000, and the ratio of bond obligations to capital and surplus was 17.4 to 1, while the legal maximum ratio is 20 to 1.

National Farm Loan Associations: Loans are made indirectly to the farmer through national farm loan associations which are organized by groups of farmers all over the State. These associations are regular business organizations with officers and directors, a secretary-treasurer attending to the details of the business. The farm loan association receives applications for loans from farmers in the surrounding community and, after investigation and a preliminary appraisal of the value of the farm to be mortgaged, passes the application on to the Federal Land Bank for approval. All interest payments and communications are made through the secretary-treasurer of the association. The borrowing farmer automatically becomes a member of the association and remains a member until his note is paid.

There were 348 of these asociations in Texas on March 20, 1923. The distribution of these farmer organizations over the state is shown in Figure 10.

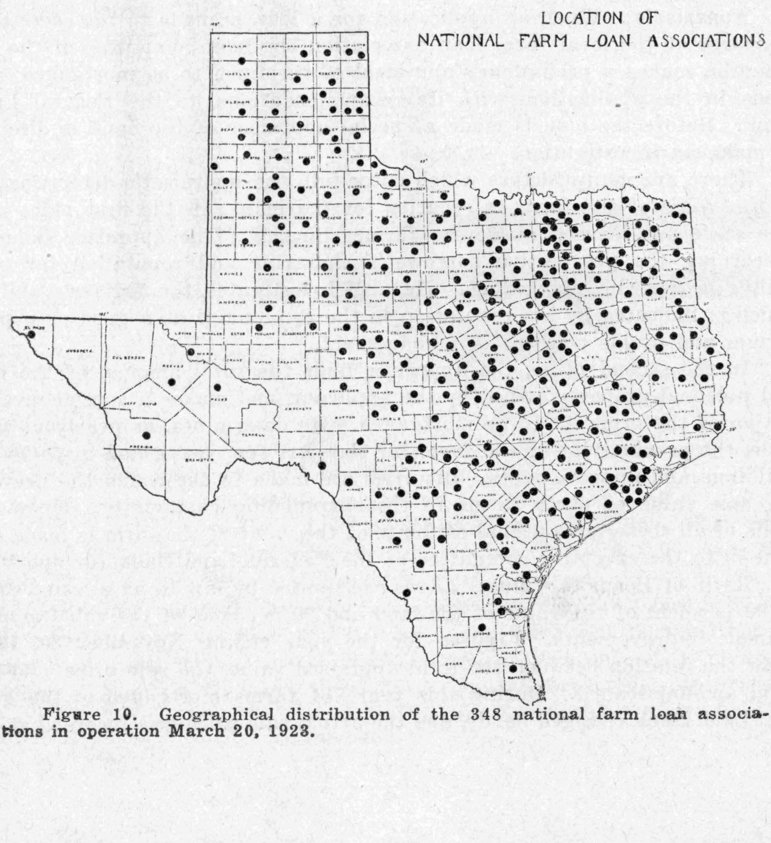

Figure 10. Geographical distribution of the 348 national farm loan associations in operation March 20, 1923.

One county had eight associations and forty counties in the state had none. More than one-half of the counties have one association each.

TABLE 15

Number of Farm Loan Associations in Texas Counties

Associations per County	Number of Counties
0	40
1	134
2	47
3	18
4	9
5	2
6	2
8	1

Appraisals: When an application for a loan is made to the secretary-treasurer of the local farm loan association the loan committee of the association makes a preliminary appraisal of the farm to be mortgaged, and sends in the application, with its recommendations, to the Federal Land Bank. Before the loan is made a special appraiser of the bank is directed to make an investigation.

There are many factors which enter into the appraiser's determination of the value of the farm as security for the loan. In the first place certain facts are learned about the farmer himself. The appraiser inquires concerning the prospective borrower's character and reputation for reliability in meeting obligations. He also investigates the farmer's ability, which is indicated by his reputation in the community as a good or a poor farmer and by his methods of management.

In the second place, the appraiser finds the total amount of the real and personal property owned by the applicant, and makes a special investigation of the property to be mortgaged. He determines, as nearly as possible, the productivity of the farm for the past few years, and inspects the buildings and improvements. Inquiries are made to determine the prevailing sale value of other farms in the surrounding community. Upon the basis of all these facts a final estimate of the value of the farm is made and sent in to the executive committee of the Federal Land Bank for approval.

Ratio of Loans to Value: Loans are limited by law to an amount equal to 50 per cent of the value of the land and 20 per cent of the value of permanent improvements. Figures for the year ending November 30, 1923, show the relation between the total appraised value, the sale price, and the total amount loaned. During this year 781 farms mortgaged to the Federal Land Bank changed hands, and the actual sale price was recorded at the

Bank. Checking these sale prices with the appraised valuations, one finds that the total of the latter is three per cent below actual sale prices, and that the loans made amount to 40 per cent of the value of both land and improvements and 39 per cent of the sale price. Table 16 gives the data for the Texas Bank and for the twelve Federal Land Banks combined.

TABLE 16

Number of Private Sales of Farms Mortgaged to Federal Land Banks, Appraised Value, Amount Loaned, and Relation of Loans to Sale and Appraised Value of Farms, for the Year Ending November 30, 1923

Sale, Appraisal, and Loan	Texas	United States
Number of Sales	781	5,943
Total Appraised Value	$5,408,486	$43,883,415
Total Loaned	$2,156,855	$17,492,109
Total Sale Price	$5,589,978	$43,659,950
Ratio of Loans to Appraised Value	40	40
Ratio Loans to Sale Price	39	40
Ratio Appraised Value to Sale Price	97	101

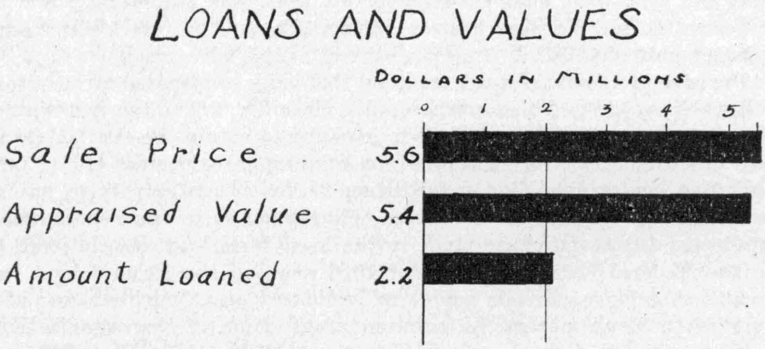

Figure 11. The total sale price, appraised value, and the amount loaned on farms mortgaged to the twelve Federal land banks. Farms were sold by owners during the year ending November 30, 1923.

Interest Rates: The legal maximum interest rate which the Federal land bank may charge is 6 per cent. The present rate is 5½ per cent, and is payable either annually or semi-annually.

Other Costs: A maximum of 2 per cent of the amount of the loan may be charged to cover the costs of making the loan. Certain expenses are involved in the appraisal of the farm and the preparation of the abstract by the farm loan association, for which it may charge as much as one per cent of the loan. One per cent is allowed for costs of appraisal and the legal determination of title by the bank.

Term and Repayment of Loans: A loan at 5½ per cent interest, payable semi-annually, runs for a period of 34½ years, unless the borrower prefers to pay it off more promptly, in which case it may be paid in full at any interest payment date after the loan has run for five years. The Houston bank's financial statement of December 31, 1923, indicates that during the seven years of operation loans amounting to $4,112,493, or approximately 4.3 per cent of its total loans, had been paid in full.

Loans are paid on the amortization plan. The word amortization is derived from "amort" meaning death, and has come to mean "to extinguish"—here, it seems, "to extinguish debt". As used by the Federal Farm Loan System, it is a method by which a sinking fund is built up by the borrower by paying an amount equal to one per cent of the loan at each interest payment date. These periodical additions to the sinking fund reduce the principal of the loan and, therefore, the interest which must be paid.

Foreclosures: The results of conservative appraisals, low interest rates, and small annual payments are shown in the negligible number of foreclosures which have been necessary. Of the 32,928 loans which had been made up to December 31, 1923, only 14 foreclosures had been made. The following statement on this point was made by R. D. Johnson, Treasurer of the Houston Bank: "The total amount of our loans up to December 31, 1923, at any time involved in foreclosures was $68,267.00 with a total number of foreclosures of 14. The total amount involved in foreclosures during the year 1923, ending December 31, 1923, was $47,557.00, there having been a total of 9 foreclosures during 1923 and 5 foreclosures during the latter half of 1922".

Purpose of Loans: Loans made by this bank are limited strictly to agricultural purposes. These purposes are classified under ten heads as follows: 1) to purchase land which is mortgaged to obtain the loan; 2) to purchase other land; 3) for buildings and other improvements; 4) for implements and equipment; 5) for fertilizer; 6) for irrigation; 7) to purchase livestock; 8) to pay off old mortgage obligations; 9) to fund short-time indebtedness; 10) to purchase stock in the local farm loan association.

The Federal Farm Loan Act of 1916 creating the Federal land banks provides that loans may be made "to liquidate" any "indebtedness" of the owner of the land mortgaged, existing at the time of the organization of the first national farm loan association established in or for the county in which the land mortgaged is situated, or "indebtedness subsequently incurred for purposes mentioned in this section." The purposes mentioned in the law for which loans may be made are indicated above.

Approximately 68 per cent of the amount of all loans of the Houston bank to October 31, 1923, went to pay off old mortgages and 9 per cent was used to liquidate other debts. Hence, over three-fourths of the amount of all loans of the bank was used by farmers to shift from various other creditors to the Federal Land Bank.

TABLE 17

Amount and Per Cent of the Total Farm Loans in Texas Made by the Federal Land Bank for Each Purpose, From Organization to October 31, 1923

Purpose	Amount Loaned	Per Cent of Total
Purchase of Land Mortgaged	$ 9,179,805	11
Purchase of Other Land	872,838	1
Buildings and Other Improvements..	2,673,686	3
Implements and Equipment	1,008,410	1
Fertilizer	49,700	*
Irrigation	19,485	*
Bank Stock	4,476,211	5
Purchase Livestock	2,125,007	2
Pay Mortgages	60,993,238	68
Pay Other Debts	8,105,849	9
Total........................	$89,504,229	100

*Less than one per cent.

Loans made for the direct purchase of land, for buildings, equipment, livestock, and fertilizer are proportionately low, and the percentages going for these immediate purposes in the future may be expected to incrase. At present the per cent of loans used to liquidate old mortgage indebtedness is exceptionally high, due, in part, to the recent agricultural depression and, in part, to the particular attractions of Federal land bank loans. In the first place, interest rates are low. Interest rates are low because: a) bonds (principal and interest) of Federal land banks are exempt by law from taxation; b) bond sales are made on a large scale by a country-wide organization; c) appraisals are made on a uniformly safe basis; d) costs of operation are comparatively low. Secondly, loans are made for a long period of years, and a convenient method of repayment requiring small annual or semi-annual payments is provided.

Sources of Loanable Funds

It was stated above that the bank had loans in force December 31, 1923, amounting to $90,093,950. The total capital and surplus of the bank at this date was, however, only $5,279,230. Hence the bank's own capital and surplus is a small item in its total loans.

Capital and Surplus: The total capital stock, $4,629,230, was owned by the borrowers. For every loan that is made the borrower must accept 5 per cent of the amount of the loan in the form of stock in the bank. Since the borrower actually receives only 95 per cent of the amount for which his note is made, it cannot be said that the capital stock of the bank is a

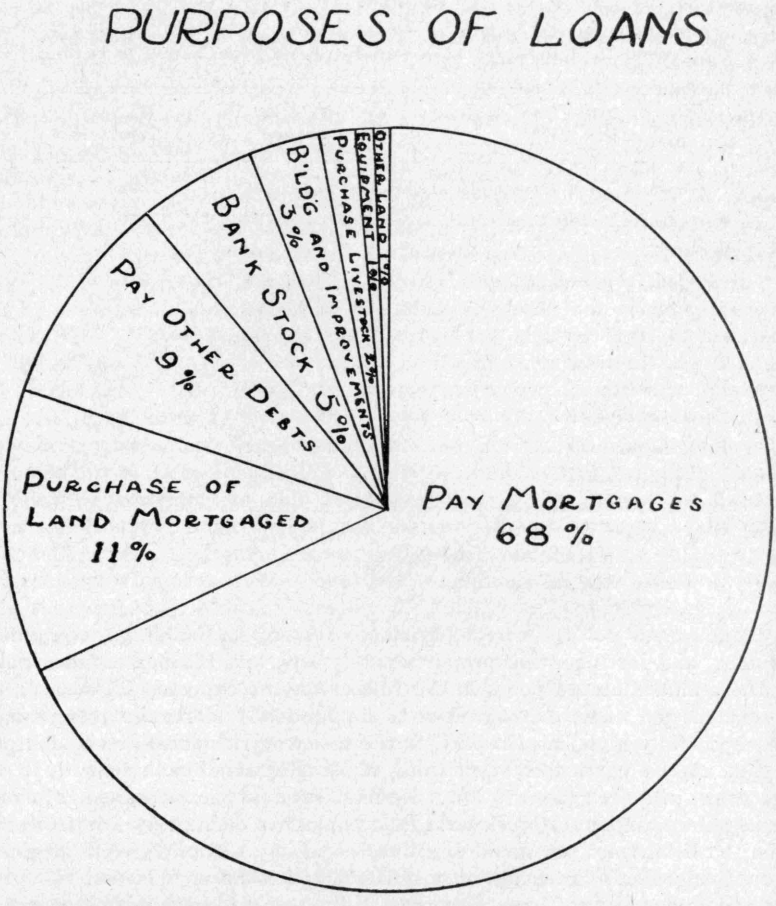

Figure 12. Distribution of loans of the Federal Land Bank of Houston according to the purposes for which they were used.

source of its loanable funds. The legal reserve (or-surplus) held by the bank was $650,000, which is negligible when compared with the total loans of the bank. Hence, the money advanced to borrowers is obtained from the public through the sale of bonds.

Bond Issues: The bank had issued bonds to the amount of $91,769,000, slightly more than one and one-half million dollars more than its total outstanding loans. As the need for more money arises bonds are issued under the supervision of the Federal Farm Loan Board, and sold by its fiscal agent. The amount of each issue depends upon the anticipated requirements of borrowers for a period of months. Three or four issues are made each year and they range in amount from $3,000,000 to $7,500,000.

For illustration, suppose the officials of the bank estimate that within the next six months loans can be made amounting to $5,000,000. An application is made to the Federal Farm Loan Board at Washington for a bond issue of that amount. Upon the approval of the Board, individual farm mortgages in the hands of the bank, totalling $5,000,000, are placed in the vaults of the farm loan registrar as security for the bonds. Bonds are then printed by the United States Treasury Department and turned over to the fiscal agent of the Federal Farm Loan Board for sale to the public. The agent usually places the bonds with large bond and investment companies, which charge a certain commission for selling them out to their clients.

A Federal Farm Loan bond is not secured by any particular mortgage, as was formerly the practice among farm mortgage companies, but rather the total issue is secured by a collection of mortgages. The investor has no dealings directly or indirectly with the borrower. The bank has the perennial function of collecting principal and interest payments from borrowers and paying the principal and interest to investors.

These bonds are considered very desirable from the investor's standpoint. Besides mortgages equal to the amount of the bonds issued, the capital and surplus of the twelve Federal land banks, the reserves of the local associations in this district, and an amount equal to the capital stock held by each stockholder of the bank, serve as additional security. Moreover, they have the particular attraction of being exempt from taxation.

These bonds bear an interest rate which varies with the conditions of the investment market. The usual margin for covering all expenses of the bank is one per cent. That is, if it is necessary to issue 5 per cent bonds, the rate for loans to farmers is set at 6 per cent. Recently, the rate on bonds has been 4½ per cent and loans are being made to farmers at 5½ per cent. It probably should be added that once a bond is issued at a given rate, it bears that rate throughout the period for which it was issued, or until the bond is "called."[1] Likewise, a loan to a farmer, say at 5½ per cent, bears the same rate of interest throughout the term of the loan.

INSURANCE COMPANIES

An enormous amount of money is collected regularly by insurance companies in the form of premiums. Since not all of these funds are required to pay off currently maturing policies, an attempt is made to find investments which yield a maximum rate combined with safety and a term adapted to the requirements of the company in meeting its obligations. Insurance companies have for many years found farm mortgages well adapted to their needs. This is particularly true of the life insurance companies, since they require investments of relatively longer terms than do the fire, casualty, and other types of insurance companies.

Texas comes in for a very substantial share of the farm mortgage investments of the life insurance companies of the country. On December

[1]These bonds may be called, or paid off, at any time after ten years from the date of issue upon due notice to the investor.

31, 1921, they had more than $84,770,566[1] invested here.[2] In the same year it was estimated[3] that 21 per cent of the amount of all farm mortgages in the State was held by life insurance companies. The heavy investment of life insurance companies may be due in part to the fact that the Robertson Insurance Law requires that all life insurance companies which sell policies in the State must invest seventy-five per cent of their legal reserve back of these policies in Texas securities, which of course include farm mortgages. It is the opinion of Mr. B. Werkenthin, Deputy State Commissioner of Insurance, that a very large portion of the farm mortgage investments of life insurance companies, particularly those located in the Northern and Eastern States, is due to the requirements of the Robertson Law.

The present investigation includes not only life insurance companies, but several other types as well. More than one-half of the 274 insurance companies which were addressed on the subject of farm mortgage investments in Texas reported, and 31 of these had such investments amounting to $53,112,568[4]. This is practically one-half of the total held by all insurance companies and, therefore, the facts given by these companies are accepted as being representative of the farm mortgage business of all insurance companies investing in the State.

Types of Insurance Companies: These 31 companies are classified in Table 18 according to the classification of the State Department of Insurance and Banking.

TABLE 18

Classification of Thirty-one Insurance Companies Operating in Texas

Type of Insurance	Number of Companies
Life	18
Casualty	6
Fire	3
Assurance	2
Auto	1
Miscellaneous Stock	1

Investments of Insurance Companies

Proportion in Farm Mortgages: The percentage of all investments made by insurance companies in farm mortgages varies with the type of insurance handled and with the individual company. While farm mort-

[1]Companies which do not have admitted assets of $500,000 or more are not included here.

[2]See "Real Estate Mortgages as Investments for Insurance Companies," prepared by Institute for Research in Land Economics and Public Utilities, from data assembled by Alfred M. Best Company, New York City.

[3]U. S. D. A. Department **Bulletin** No. 1047, December, 1921.

[4]Only first mortgages are accepted according to the reports of these companies.

gages are usually considered very good investments by insurance companies, they have certain disadvantages. For instance, many fire and casualty insurance companies do not consider that farm mortgages are sufficiently liquid. Their obligations are such that they require investments of shorter maturity, or such securities as stocks and bonds which may be readily sold to meet their current needs. These shortcomings hold, to a less degree, with life insurance companies.

Over 47 per cent of the amount of all loans made by 13 reporting life insurance companies was made on farm mortgages, while only 18 per cent of the total amount loaned by nine companies of other types was made on farm mortgages.

TABLE 19

Total Loans and Farm Mortgage Loans by Twenty-Two* Insurance Companies

Companies	Number Reporting	Total Loans of All Kinds	Total Farm Mortgage Loans	Per Cent in Farm Mortgages
Life Insurance.....	13	$423,285,000	$200,365,206	47.3
Other	9	95,527,700	17,211,308	18.0

*Nine companies did not answer this question.

Loans in Texas: Six of the 31 companies reporting are located in Texas, and 25 are distributed over the country from Hartford, Connecticut, to Los Angeles, California. The larger investors are, in most cases, located in the cities of the North and East. The six Texas companies had $13,199,699 in Texas farm mortgages, and the other companies had $39,912,869.

Table 20 indicates the percentage of loans of the Texas and other companies which are made in this State, as indicated by the twenty-two companies reporting on this question.

TABLE 20

Total Farm Mortgage Loans and Amount and Per Cent Made in Texas, by Texas and Outside Companies

Companies	Number Reporting	Total Farm Mortgage Loans	Amount of Farm Mortgages in Texas	Per Cent of Farm Mortgages In Texas
Texas Companies	6	$ 18,103,581	$13,199,699	72.9
Outside Companies	16	155,043,833	30,123,360	19.2

Size of Business in Texas Mortgages: The 31 companies vary greatly in the amount of Texas farm mortgages held. Eight companies have loans varying from one to seventeen millions of dollars, and the amount held by these companies is $46,152,041, or 86.9 per cent of the total. With one exception these are all life insurance companies. The other 23 smaller investors have amounts ranging from a few thousand to one million. Eleven have less than $100,000, and twelve have $100,000 to $1,000,000.

TABLE 21
Distribution of Twenty-Three Insurance Companies According to Amount of Investments in Texas Farm Mortgages.

Amount of Loans	Number of Companies
$ 0-$199,999	11
200,000- 399,999	4
400,000- 599,999	3
600,000- 799,999	4
800,000- 999,999	1

Methods of Making Loans

Many farm mortgage loans are made indirectly through the regular farm mortgage companies, particularly those located in the State. In this manner the insurance company avoids the necessity of dealing directly with borrowers, who are widely distributed over the State. Large amounts can be invested at once with little or no difficulty. It was found that approximately 30 per cent of the total farm mortgage investments of the companies was made indirectly through farm mortgage companies or individuals.

However, the method of acquiring farm mortgages directly from the borrowers is the more usual practice. A few companies maintain regular district and local agents for this purpose. Table 22 gives the amount and per cent of the total loans made by 29 companies by each method.

TABLE 22
Amount and Per Cent of Loans Made Directly to Farmers and Through Mortgage Companies and Individuals

Method	Amount of Loans	Per Cent of Total Loans
Direct	$36,764,663	70.3
Indirect	15,506,905	29.7

Ratio of Loans to Value

It was pointed out above that safety is one of the prime requisites of an ideal investment for insurance companies. The safety of farm mortgages is based primarily upon conservative appraisals and an adequate margin between the amount of the loans and the value of the property mortgaged. Twenty companies indicated the ratio of their loans to the value of land and buildings. On the average, 44.5 per cent of the value of the land is loaned. Only nine of the twenty companies consider the value of buildings and an average of 38.3 per cent of their value is loaned.

TABLE 23

Ratio of Loans to Appraised Value of Land and Buildings

Loans on Land			Loans on Buildings		
Number of Companies	Amount Reported	Average Per Cent Loaned on Land	Number of Companies	Amount Reported	Average Per Cent Loaned on Buildings
20	$26,464,914	44.5	9	$2,803,149	38.3

Foreclosures

The relatively few foreclosures of insurance companies should give some indication of their conservative policy in making loans. Of the twenty-seven companies which reported on this question only four had foreclosures during 1923. The total involved was $87,469, less than one-third of one per cent of the loans of the companies reporting. No loss had been incurred at the end of the year.

Interest Rates

Average Rates: The usual interest rates of insurance companies are 6 and 7 per cent. The weighted average prevailing rate for the 31 companies is 6.47 per cent.[1] The Texas companies get an average of 7 per cent, while companies located outside the State charge an average of 6.2 per cent.

Range of Rates: In order to get an idea not only of the average but also of the range of interest rates, each company was asked to designate its highest, lowest, and prevailing rates. The lowest rate reported on any loan is 5½ and the highest is 9 per cent. The average of the lowest rates reported is 6.07 per cent and the average of the highest rates is 7.42. These averages along with the average prevailing rate are shown in Figure 13.

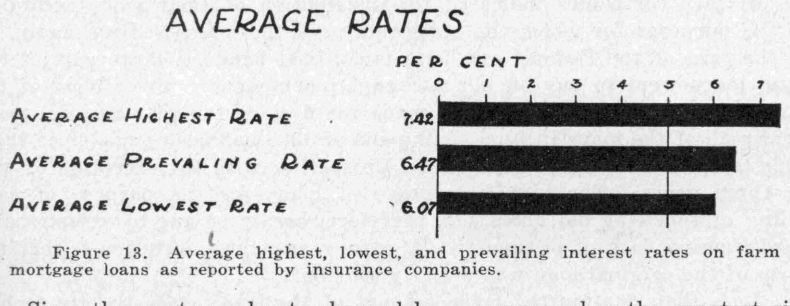

Figure 13. Average highest, lowest, and prevailing interest rates on farm mortgage loans as reported by insurance companies.

Since the most usual rate charged by a company has the greatest significance, the average prevailing rate of 6.47 per cent can well be analyzed further by finding the variation of prevailing rates about this average. For instance, one company reported its prevailing rate at 5.75 per cent, while

[1]Insurance companies accept only first mortgages. One company had a second mortgage of $2,500.

two other companies reported 8 per cent as being the rate most commonly charged. Table 24 shows the total loans of companies reporting the various prevailing rates. It will be readily observed that companies having a large percentage of the total loans of all companies indicate that their prevailing rates are 6 and 7 per cent.

TABLE 24

Amount and Per Cent of Loans at Various Prevailing Interest rates

Prevailing Interest Rates	Total Loans by Companies Reporting Each Rate	Per Cent of Total Loans by Companies Reporting Each Rate
Total	$52,362,568	100.00
5¾	50,000*	0.09
6	27,376,404	52.28
6½	1,534,500	2.93
6¾	435,963	0.83
7	21,959,681	41.94
7½	636,308	1.22
8	369,712	0.71

*This does not mean that $50,000 was loaned at 5¾ per cent, but that companies having total loans of all kinds amounting to $50,000 reported their prevailing rate as being 5¾ per cent.

Purpose of Loans

Sixteen companies indicated the distribution of their loans according to the purposes for which the borrowers used the money. Here again, as in the case of the Federal and joint stock land banks, a large part of the total loans went to pay off old mortgage indebtedness. Since most of the loans of insurance companies are made for five- or ten-year periods, practically all of the loans in force at the end of 1923 had been made since 1913. This ten-year period has been one of prosperity, with the exception of two or three years. The high percentage of loans for the purpose of canceling or renewing old notes can, therefore, hardly be due to exceptionally hard times or lack of prosperity. A more reasonable conclusion is that the term of the original loan was entirely too short.

Less than one-fourth of the amount of the loans goes directly to buy land. This is very low when it is considered that by far the larger portion of farm mortgage financing is for the ultimate purpose of securing funds to purchase land. It is obvious, of course, that the old mortgages, which are being paid off by the renewal of notes, were originally made largely for the purpose of buying land and buildings. If the amounts loaned to pay off old mortgages and directly to purchase land are combined, about 75 per cent of the total is included.

Approximately five per cent of the total is used for buildings and other permanent improvements. Technically, farm mortgage financing should be involved wholly with land and permanent improvements, but the facts here indicate that only about four-fifths of the total amount of these loans goes for these purposes. The other 20 per cent is used to buy current supplies, to fund current short-time indebtedness, and for the payment of taxes, insurance, and so forth.

Figure 14 shows the distribution of the Texas farm mortgage loans of sixteen insurance companies according to the purposes for which the money was borrowed.

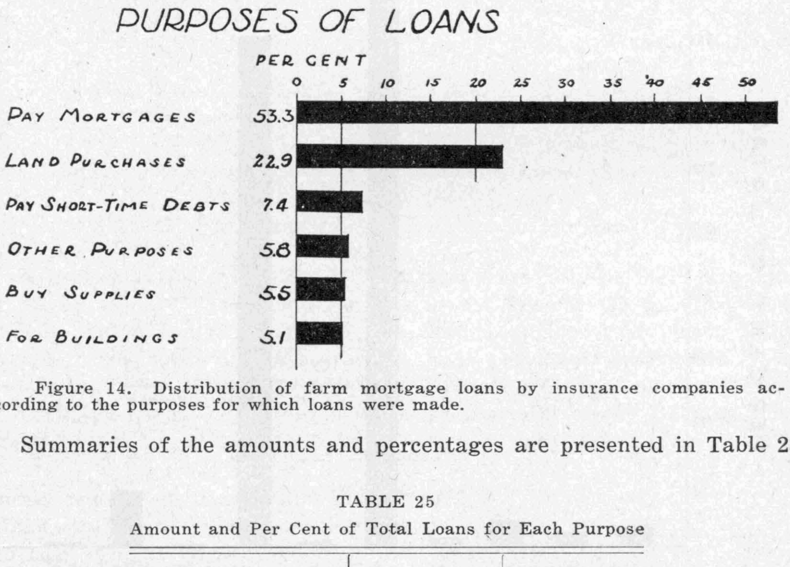

Figure 14. Distribution of farm mortgage loans by insurance companies according to the purposes for which loans were made.

Summaries of the amounts and percentages are presented in Table 25.

TABLE 25

Amount and Per Cent of Total Loans for Each Purpose

Purpose	Amount	Per Cent of Total Loans
Land Purchase	$ 6,359,937	22.9
Pay Old Mortgages...	14,816,658	53.3
Pay Short-Time Debts	2,046,385	7.4
For Buildings	1,414,578	5.1
Buy Supplies	1,539,604	5.5
Other Purposes	1,625,904	5.8
Total	$27,789,610	100.0

Length of Term of Loans

Reference was made above to the fact that loans by insurance companies commonly run for periods of five or ten years. Figure 15 brings out this fact in a striking manner.

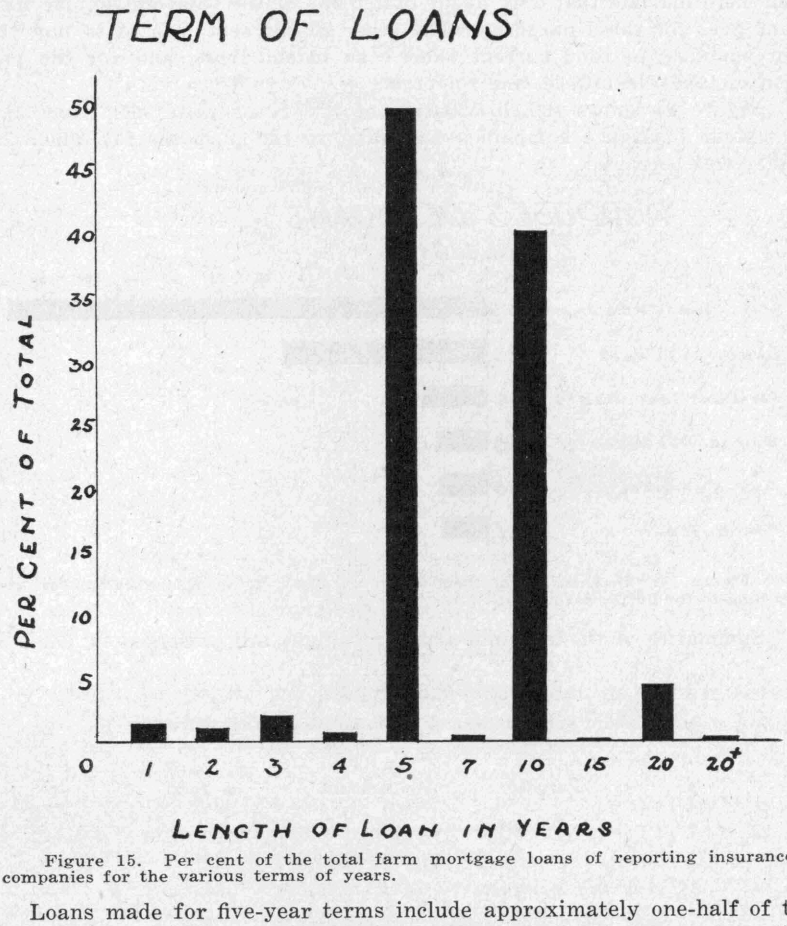

Figure 15. Per cent of the total farm mortgage loans of reporting insurance companies for the various terms of years.

Loans made for five-year terms include approximately one-half of the total loans of 26 companies, and forty per cent of the amount outstanding is in ten-year notes. The next most usual term is twenty years, while a considerable amount is loaned for three years, and some notes are made for only one year.

TABLE 26

Amount and Per Cent of Loans Made for the Various Terms

Length of Loans in Years	Amount Loaned	Per Cent of Total
1	$ 701,475	1.46
2	631,275	1.31
3	1,058,277	2.20
4	331,275	0.69
5	23,679,255	49.15
7	145,609	0.30
10	19,687,664	40.84
15	1,682	0.01
20	1,937,901	4.02
Over 20	3,363	0.02
Total	$48,177,776	100.00

A noticeable feature of Table 26 is that practically no loans are made for fifteen years. The reason for this is not known. It seems obvious, however, that it is not due to the fact that the fifteen-year period is not adapted to the needs of the borrower. It is probable that custom is the chief factor here. Certain periods have come to be round-number periods for mortgage loans. Only four per cent of the total of the loans of these companies has terms other than three, five, ten, and twenty years.

Methods of Repayment

As in the case with the farm mortgage companies, there are five rather distinct plans upon which the insurance companies have their loans paid off. The most usual is that of requiring a lump-sum payment of the amount of the loan at the end of the term. This plan is simple and the necessity for loaning the money occurs only at the end of the five- or ten-year period. Over 45 per cent of the total amount of loans of the twenty-one companies reporting on this question was loaned under this plan. Another method which is more convenient for the borrower is that of requiring regular annual payments until the note is liquidated. Slightly over 26 per cent of the amount loaned by these companies is included in this plan. The next most important method is that of permitting partial payment of the note at any time convenient to the borrower. This plan covers approximately 20 per cent of the total loans. A slight variation of this method is to let the note run without payments, or with regular specified payments, to the end of a certain period, say, three or five years, and then to permit payments in any amount at the will of the borrower.

The amortization plan of repayment of mortgage loans is coming more and more in favor with financing institutions in this country. It is a variation of the annual payment method described above. A fixed sum which covers both interest and principal payment is paid annually, while under the old annual payment plan the amount paid each year decreases as the note matures. The amortization plan is used entirely by the Federal Farm Loan System and to some slight extent by farm mortgage companies. Loans made under this plan by the twenty-one insurance companies amount to about 6 per cent of the total.

TABLE 27

Per Cent and Amount of Loans by Various Methods of Repayment as Indicated by the Twenty-One Insurance Companies Reporting

Method of Repayment	Amount	Per Cent of Total
Lump Sum	$13,702,669	45.7
Annual Payments	7,864,104	26.2
Partial at Will	5,784,139	19.3
By Amortization	1,931,174	6.4
At Will After a Specified Period	730,085	2.4
Total	$30,102,176	100.0

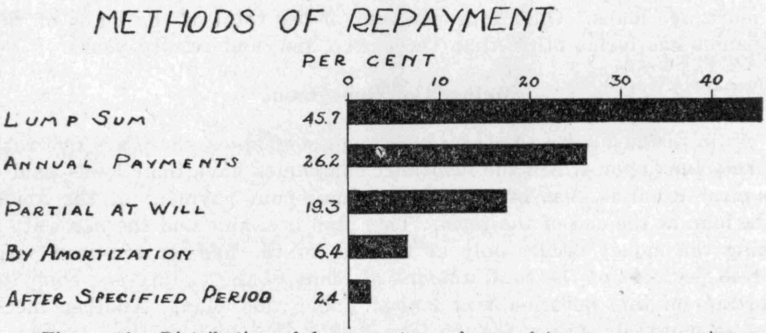

Figure 16. Distribution of farm mortgage loans of insurance companies according to the method of repayments required.

TRUST COMPANIES

Nature of Business

The trust company has as a major part of its business the investment of funds placed in its care, and usually the more substantial types of investment are selected. First mortgages on real estate are almost universally included, along with government bonds, in any list of "safe and sound" investments for funds held in trust.

Limitations of Data

The information obtained on the loans of such companies on Texas farm lands is entirely too fragmentary to permit definite conclusions to be drawn, since only three companies reported. However, a very brief summary of the facts as indicated by these three companies—located, one each in Kansas City, Dallas, and Austin—will be given.

Amount of Loans

The total Texas farm mortgage loans by these companies in force December 31, 1923, amounted to $17,387,951. This is not an insignificant amount, and the conclusions as to methods of making loans, interest rates, and so forth, are limited in accuracy chiefly by the small number of companies rather than by the total of the loans represented here.

Methods of Making Loans

Loans to farmers are usually made through district or local agents of the company. One company has four district loan agents in the State, while another maintains seventy-five local loan agents throughout the sections of the State where loans are made.

Ratio of Loans to Value, and Interest Rates

Each company reports that loans are made up to 50 per cent of the value of the land and none on buildings and improvements. The prevailing rate of interest for each company is 7 per cent, while the widest range of rates by any one company is from 6 to 9 per cent. Most of the loans run for periods of either five or ten years, and are either paid in lump sum, or by partial payments after a specified number of years.

Purpose of Loans

One company estimates that 50 per cent of the total of its farm mortgages is used to purchase land, 40 per cent to liquidate short-time debts. The other company which answered this question indicates that 75 per cent goes for the purchase of land, 10 per cent each to pay short-time debts, for buildings, and to buy farm supplies. The percentage of the loans of these companies used directly for land purchase is much higher than that of the other types of financing institutions. There is no obvious reason for this difference. If the facts from all trust companies were at hand it might be found that these two companies are exceptional on this point.

STATE AND NATIONAL BANKS

State and national banks are designed primarily to accept deposits and make short-time loans. Loans are made chiefly from the deposits of their customers, and the term for which the loans are made must be adapted to the term of the deposits. In the great majority of cases depositors are privileged to withdraw their funds at any time. Such "demand" deposits are practically universal with the country banks, in contrast to "time" deposits, which are frequently accepted by the larger city banks. Since the bank is liable at any time to pay its depositors, it is the policy to make loans only for short periods of thirty days to six months. Hence, by the nature of their business they are not adapted to making farm mortgage loans.

Mortgage Loans

Notwithstanding, many such loans are made by these commercial banks. No very large amounts are loaned by any individual bank, but the combined mortgage loans of upwards of 30,000 banks in the United States amount to a huge sum. It was estimated by the Federal Department of Agriculture in 1921 that the commercial banks of the United States had farm mortgage loans amounting to approximately one and one-half billions of dollars, or about 17 per cent of all such loans in the country.[1] The estimated amount loaned on Texas farms by these banks was over $15,000,000, or 4 per cent of the total farm mortgage indebtedness in the state. A very considerable item in this total is that of land mortgages held by these banks as security for short-time debts previously contracted. Many banks indicated that it is only under such circumstances that they accept farm mortgages.

State and Federal banking laws have been designed to limit rather strictly the long-term loans of commercial banks. The solvency of the bank and the safety of the depositors require that a very large proportion of its funds be invested in more liquid security. Up to 1913 national banks were not legally permitted to make farm mortgage loans. But with the passage of the Federal Reserve Act creating a new source of funds for its member banks in case of need, an amendment was passed allowing national banks to make a limited amount of such loans for periods not to exceed five years. National banks were thus enabled to compete with state banks for loans of this type.

Mortgages Reported

The facts collected in this survey indicate that only about one-third of the national banks and about one-fourth of the state banks in Texas have farm mortgage loans. Of the 573 national banks in the State, 182 sent in reports. Sixty of those reporting had farm mortgage loans in force December 31, 1923, amounting to a total of $1,100,708. Of the 985 state banks in the State, 243 sent in reports. Sixty-five had farm mortgages amounting to $1,010,648. The average held by national banks was $18,346, as compared with an average of $15,458 by state banks. From these figures it is estimated that a total of approximately $7,500,000 in farm mortgages is held by all the state and national banks in the State.

[1]U. S. D. A. Department **Bulletin,** Number 1047, published December, 1921.

TABLE 28

Total National and State Banks in the State, Number Answering, Number Having Mortgages, Amount Reported, Estimated Total for State, and Average Loans per Bank

Institution	Number of Banks in State	Number Banks Answering Questions	Number and Per Cent Banks Answering Having Farm Mortgages		Amount of Mortgages Reported	Average Amount Held by Banks Lending	Estimated Amount Held by All Banks in the State
			Number	Per Cent			
National Banks	573	182	60	32.9	$1,100,708	$18,346	$3,406,852
State Banks	985	243	65	26.7	1,010,648	15,458	4,089,124

State banks are as a rule smaller than national banks and accordingly have less loaned on farm mortgages. But since there are almost twice as many of the former, the estimated total of their loans is greater. The fact that more capital is required to organize national banks may account for the larger average amount of farm mortgage loans of these banks.

Farm Mortgage Loans by Districts

The great size and the varied types of agriculture of Texas make it advisable when practicable to divide the state into districts.[1] Loans on land are obtained more easily and at a lower rate of interest in the more highly developed sections of the State than in the less developed sections. Local customs affect the farm mortgage business differently in different parts of the State. For the purpose of the study of the farm mortgage business of local banks the State is divided into five districts as indicated in Figure 17.

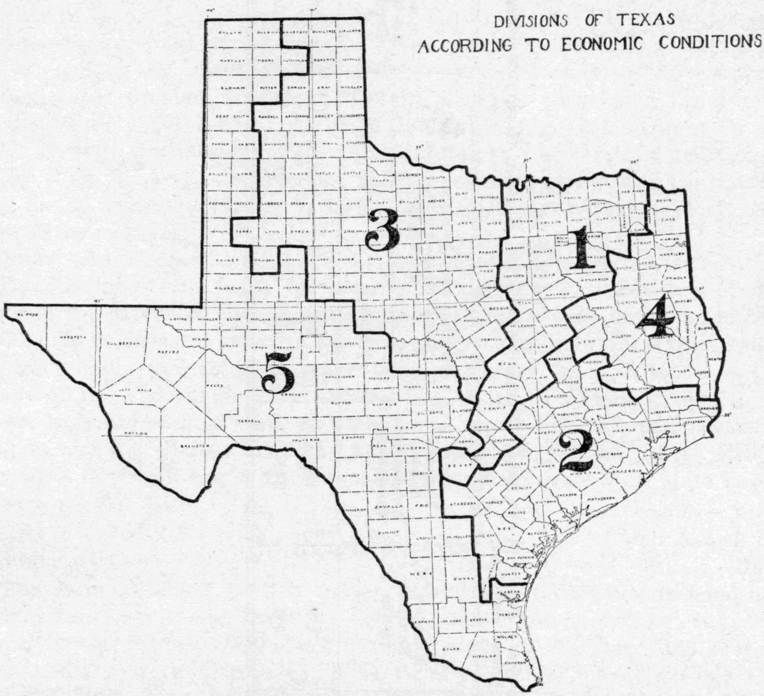

Figure 17. Districts of Texas as determined by (1) the type of soils, (2) the value per acre of land, and (3) the type of agriculture. District No. 1 is composed of 36 counties with an average value, according to the 1920 Census, of $85.33 per acre. District No. 2 has 40 counties. The Census valuation of the land is $34.00 per acre. District No. 3 has 71 counties with an average value per acre of $27.35. District No. 4 has 27 counties and the average value per acre of the land is $21.85. District No. 5 is the largest division and contains 81 counties in the ranching section of the State. The average value of the land here is $10.75 per acre.

[1]This was hardly possible in the case of the financing institutions other than the local banks. The loans of the bank are usually made in the immediate community in which it is located.

These divisions are based chiefly upon land values and types of agriculture. The "Black Land Belt" is included in District Number One, the great cotton producing area of the State. The average value per acre of the land in this district is $85.33, according to the 1920 Census. District Number Two includes most of the Coastal Plain and the lighter soils of the southeastern portion of the State. The average land value here is $34.00 per acre. District Number Three is comprised of 71 counties in the more recently developed farming sections of Northwest Texas. The average value per acre in this section is $27.35. "East Texas", with its lumbering, its cotton and truck farming, is included in District Number Four. The average value of land here is $21.85. The largest district, and probably the most homogeneous from the standpoint of land values and the occupation

TABLE 29

Number of State and National Banks Reporting Loans, Total and Average Amount of Mortgages, by Districts*

	National Banks			State Banks		
District	Number Reporting Mortgages	Total Mortgages	Average Per Bank	Number Reporting Mortgages	Total Mortgages	Average Per Bank
1	23	$335,554	$14,589	15	$256,315	$17,088
2	9	126,506	14,056	18	193,641	10,758
3	14	292,247	20,875	15	226,250	15,083
4	5	174,800	34,960**	8	68,006	8,501
5	9	171,601	19,067	9	266,616	29,424

*In the case of Districts 4 and 5, at least, conclusions could be drawn with greater certainty if a greater number of banks were represented.

**One of these banks had $150,000 in mortgages, which unduly raises the average.

of its residents, is comprised of 81 western counties from Cameron in the South to Dallam in the North Panhandle. This more arid section is utilized chiefly for the raising of cattle, sheep, and goats. The average value of land per acre is $10.75.

The reports from banks were classified according to their location in these districts. It is interesting to compare one section with another with regard to the extent of farm mortgage business of the banks, and interest rates charged.

More than half of the banks reporting are located in Districts One and Three, i. e., in North Central and Northwest Texas. Also more than half of the total loans reported are by banks in these districts. Banks having the largest average amount of mortgages are located in the ranching section of West Texas. Banks in East Texas have the smallest average with the exception indicated in the footnote of Table 29.

Loans Placed

Besides the mortgage loans actually made by these banks they are instrumental in placing many loans for farm mortgage and insurance companies. Of the 243 state banks which sent in reports, 40, or 16 per cent of the total, had placed loans amounting to $1,384,000 during 1923. Of the 182 national banks reporting, 17, or about 9 per cent of the banks, had placed loans amounting to $917,750 during that year. The total of the loans placed by these state and national banks for other loaning agencies is slightly greater than the loans actually made with their own funds.

Ratio of Loans to Value

These banks in a majority of the cases make loans amounting to 50 per cent of the total value of the farm mortgaged. Since the farm mortgage business of commercial banks is incidental, there seems to be no great amount of uniformity of policy in the ratio of loans to value. Not many banks make a distinction between the value of buildings and land in making loans. Usually a value is placed upon the farm as a whole or else the land value alone is considered. Thus, 50 of the 75 banks reporting on this point placed a flat value on the farm as a whole, 13 considered the value of the land alone, and 12 made separate valuations for land and buildings. In all these cases loans range from around 40 per cent to 75 per cent of the value of the property mortgaged, the most usual being 50 per cent.

Interest Rates for the State As a Whole

As would be expected, the interest rates charged by commercial banks on farm mortgages are higher than those of the insurance companies and the regular farm mortgage companies. In the first place, as was pointed out above, these banks are not adapted to long-term loans, and the interest rate must be particularly attractive to induce them to invest their funds in such

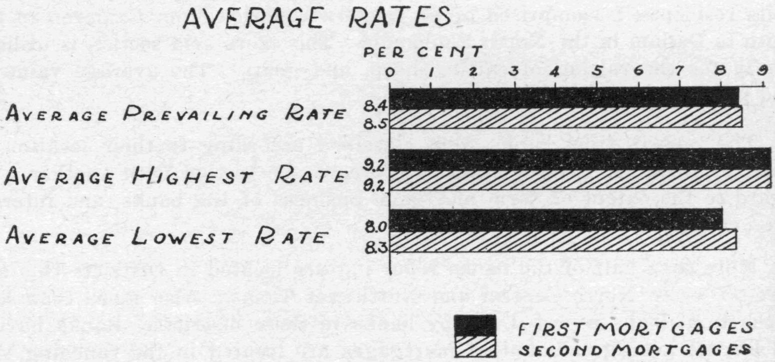

Figure 18. The average highest, lowest, and prevailing interest rates charged by state and national banks (together) on notes secured by first and second farm mortgages.

"frozen" security. In the second place, the customary rates for short-term notes are 8 to 10 per cent and similar rates are expected on farm mortgage loans.

The average prevailing rate on first farm mortgages is 8.4 per cent, the average highest per cent is 9.2, and the average lowest is 8.0. These average rates for second mortgages are: prevailing, 8.5 per cent; highest, 9.2 per cent; and lowest, 8.3 per cent. The highest rate charged on any first mortgage is 10 per cent and the lowest is 5.5 per cent. The highest rate on any second mortgage is 10 per cent, while the lowest is 6 per cent. Figure 18 is a comparison of the average highest, lowest, and prevailing rates on first and second mortgages.

Prevailing rates on first mortgages reported by state and national banks range from 6 to 10 per cent. Banks having 24 per cent of all first mortgages reported their prevailing rate as 10 per cent, while banks having more than two-thirds of all first mortgages reported indicated 8 per cent as their prevailing rate. Table 30 shows the per cent of all reported first mortgage loans held by banks reporting the various prevailing rates.

TABLE 30

Per Cent of the Amount of First Farm Mortgages Held by State and National Banks Reporting the Various Prevailing Interest Rates

Prevailing Interest Rates	Per Cent of Total Loans by Banks Reporting Each Rate
Total	100.0
10	24.0
9½	1.6
8	68.8
7	3.5
6	2.1

Table 31 shows a similar analysis of the prevailing rates on second mortgages. It will be observed that the prevailing rates here are just slightly higher than those on first mortgages. Thus, banks having 28.3 per cent of the second mortgages reported 10 per cent as their usual rate, and so on through the table.

Interest Rates by Districts

Whereas the average prevailing interest rate on first mortgages for the State as a whole is 8.4 per cent, it ranges from 8.2 in the Balck Land Belt to 8.9 in West Texas. A graphic representation (Figure 19) of the average prevailing rates in the five districts will help to show the variation in rates in the different sections of the State, and between first and second mortgages.

TABLE 31

Per Cent of the Amount of Second Farm Mortgages Held by State and National Banks Reporting the Various Prevailing Interest Rates

Prevailing Interest Rates	Per Cent of Total Loans by Banks Reporting Each Rate
Total	100.0
10	28.3
8	70.3
7	0.9
6	0.5

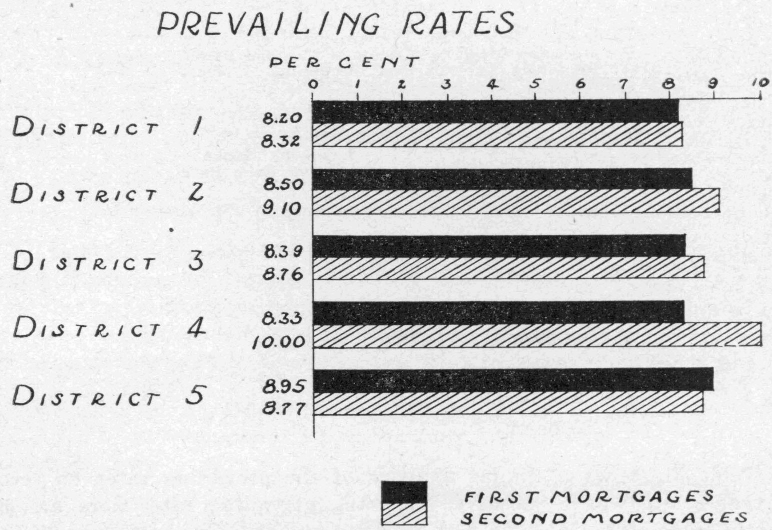

Figure 19. Average prevailing rates charged by state and national banks (together) on farm mortgages, according to the district in which banks are located.

For second mortgages the rate is lowest in the north central section and highest in the eastern section. Table 32 gives the averages upon which the chart is based.

TABLE 32

Weighted Average Prevailing Interest Rates on First and Second Mortgages Outstanding January 1, 1924, for Reporting State and National Banks by Districts.

Districts	Rates	
	First Mortgages	Second Mortgages
1	8.20	8.32
2	8.50	9.10
3	8.39	8.76
4	8.33	10.00
5	8.95	8.77*.

*This figure is lower than would be expected, due probably to the fact that only a few of the banks reporting from this district had second mortgages.

If each average in Table 32 is broken up into its component parts, a better idea of how the rates vary in the different sections of the State can be obtained. Thus, about 80 per cent of the total in first mortgage loans in the Black Land Belt bears 8 per cent interest and over four per cent of the amount bears only 6 per cent. On the other hand, in the northwest section of the State only about 58 per cent of the total in first mortgage loans bears 8 per cent, while there are no loans made at less than 7 per cent. In the western and southwestern section only 37 per cent of the total in first mortgages bears 8 per cent, and over 59 per cent bears 10 per cent.

TABLE 33

Per Cent of Amount of Farm Mortgage Loans by Reporting State and National Banks, by Districts, at Designated Prevailing Interest Rates

District	Per Cent of Total Loans at Each Prevailing Rate										
	First Mortgages					Total	Second Mortgages				Total
	10	9½	8	7	6		10	8	7	6	
1	9.9	5.8	79.9		4.4	100.0	17.6	79.2	3.2		100.0
2	28.2		68.7		3.1	100.0	4.7	95.3*			100.0
3	39.0		57.6	3.4		100.0	37.8	62.2			100.0
4	16.6		83.4			100.0	100.0				100.0
5	59.7		37.2		3.1	100.0	39.9	58.6		1.5	100.0

*This percentage is probably unduly high because of a relatively few large loans being made at 8 per cent.

Certain banks reported each of these five rates as being their prevailing rate on first mortgages. Say four banks in District Number Three reported 10 per cent as being their usual or prevailing rate on first mortgages and their total first mortgage loans amounted to $100,000. Then calculations are made to see what per cent this is of the total first farm mortgages reported by all banks in that district. Hence, in the above case it was found that banks reporting 39 per cent of the total loans of the district reported 10 per cent as their prevailing rate of interest.

The interest rate seems to vary inversely with the certainty of income from the land and directly with the distance from the larger centers of population. Fundamentally, these two factors are almost synonymous. In those sections where the greatest certainty of an income exists there is the greatest concentration of population, both urban and rural. Furthermore, it is in these more prosperous sections that the best facilities for credit exist. There is more competition for loans, and custom has less influence upon interest rates.

Term of Loans

The lack of adaptability of commercial banks to the farm mortgage business hinges chiefly, as was pointed out above, upon the length of term of mortgage loans. Normally, it is to be expected, therefore, that mortgage loans made by state and national banks would be concentrated on the shorter terms. Moreover, it has been indicated above that a good share of the mortgages held by these banks is taken as additional security for short-term debts previously contracted. These notes are of course made for the shortest term practicable, which means in most cases one year or less.

Banks having approximately 75 per cent of the total mortgage loans indicated the length of term for which their mortgages are made. Over 58 per cent of the amount of farm mortgage loans of national banks has a term of one year or less, while more than 62 per cent of the amount held by state banks falls in this period. With national banks the next most usual

TABLE 34

Amount and Per Cent of Total Loans by Reporting National and State Banks for the Different Terms

Term In Years	National Banks		State Banks	
	Amount	Per Cent of Total	Amount	Per Cent of Total
1	$434,730	58.2	$477,082	62.7
2	77,452	10.4	34,771	4.6
3	37,493	5.4	57,380	7.5
4	132,779	17.9	5,060	0.7
5	39,397	5.3	169,885	22.3
10	17,031	2.3	15,790	2.1
15 and Over	4,374	0.5	1,000	0.1
Total	$743,256	100.0	$760,968	100.0

term is four years, approximately 18 per cent of the total being indicated as four-year mortgages. With the state banks the five-year term is the next most common, the loans for this term making up over 22 per cent of their total loans. Neither state nor national banks have loans of much significance running more than five years.

Table 34 shows the distribution of the mortgage loans of these banks according to the length of term for which loans are made.

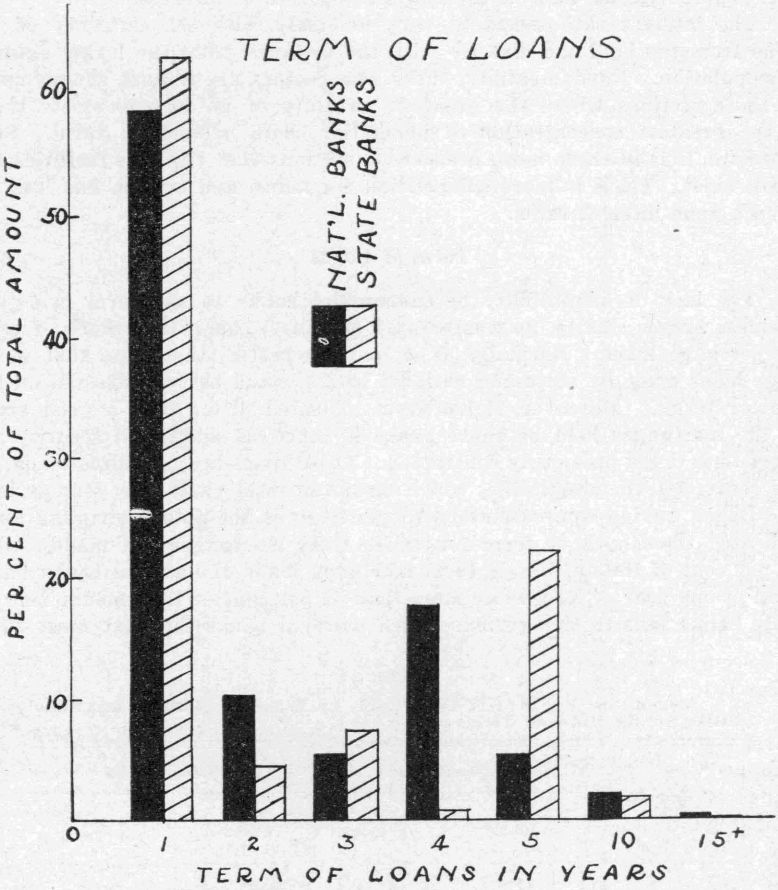

Figure 20. Distribution of loans of state and national banks (separately) according to the number of years for which loans were made.

Method of Repayment of Loans

The lump-sum method of repaying the entire principal of the loan at the end of the specified term is most usual with commercial banks. Loans made under this plan include about 62 per cent of their total loans. The method of requiring regular annual payments is, however, quite common, as the reports indicate that the amount of loans under this plan includes 26 per cent of the total loans. The amortization plan of repaying loans has not made much progress with the commercial banks.

TABLE 35

Amount and Per Cent of Total Loans of Reporting State and National Banks by Various Methods of Repayment

Method of Repayment	Amount	Per Cent of Total
Lump Sum	$ 881,493	61.9
Annual Payments	376,338	26.4
Partial Payments at Will	149,384	10.5
Amortization	16,028	1.1
Other	1,000	0.1
Total............	$1,424,243	100.0

SUMMARY

A summary of the results or conclusions of this study of the farm mortgage business in Texas may aid the farmer, the investor, and the financing institution in retaining the essential facts. In the first place, this study emphasizes the fact that farm mortgage financing is a large and important element in the business operations of Texas farmers. Secondly, the whole process of making a loan is analyzed. Connections between borrowers and the financing institution are established through advertising, or the local agent, or the local loan association. The value of the property to be mortgaged is determined by an actual inspection of the farm, the inspector ascertaining its productivity, its location, the condition of improvements, and the farming methods used by the prospective borrower. If, on the basis of the appraiser's report to the headquarters of his company or bank, the security is acceptable, there remains only the details of determining a clear title and advancing the money to the farmer.

Thirdly, this study reveals the ultimate sources of the funds loaned on farm mortgages. Insurance and trust companies loan funds which are supplied them by their policy holders and wards. Commercial banks loan funds of depositors, or their own capital and surplus. The regular farm mortgage institutions—farm mortgage companies and Federal and joint stock land banks—obtain their loanable funds from the investing public. The farm mortgage company usually sells its mortgages, while the Federal and joint stock land banks sell bonds secured by a collection of mortgages. In either case the mortgages, or bonds, are sold through large investment houses located in the large cities or, more directly, to individual investors through special sales agents of the company or bank. It is a very noticeable fact that a very large percentage of these bonds or mortgages are sold out side the State.

Fourthly, in addition to the functions of making loans and obtaining

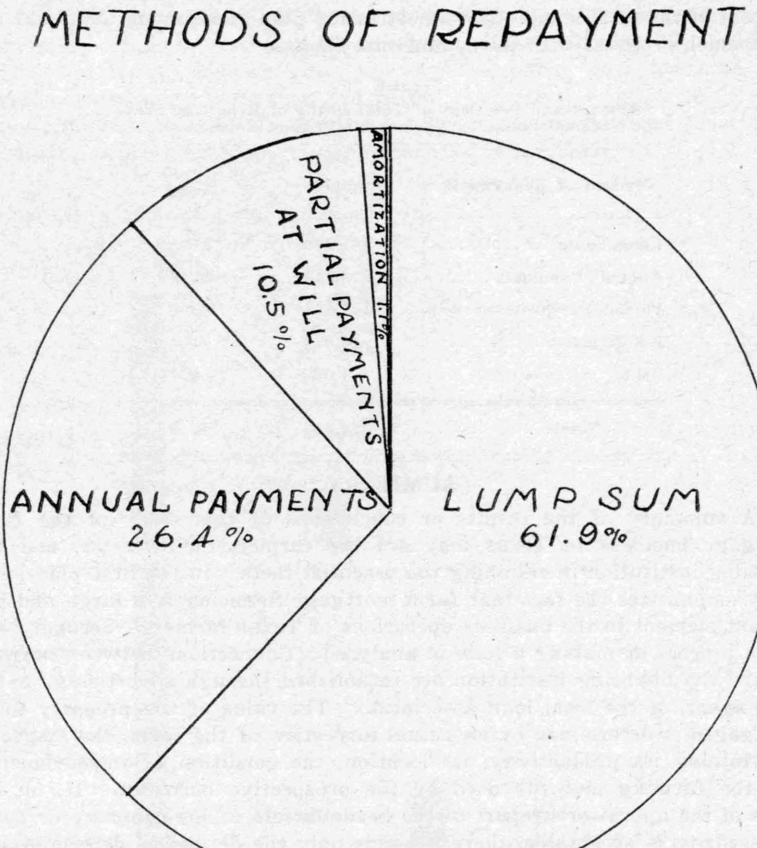

Figure 21. Distribution of loans of state and national banks (together) according to the methods of repayment required.

funds through the sale of securities, the farm mortgage financing institution has the further important function of looking after the security during the period of the loan. In the case of the farm mortgage company, in particular, this often involves advancing insurance and taxes to the borrower, and the advancement of principal and interest to the investor in case of default of the borrower. Joint stock land banks, likewise, have the function of looking after the security. In the case of the Federal Land Bank the care of security, as well as the responsibility of guaranteeing the payment of the loan, is the function of the local farm loan association. Insurance and trust companies look after their own security in case their loans are made directly to farmers rather than through some regular farm mortgage bank.

Commercial banks usually make loans in their immediate community and of course look after the security of their loans.

Fifthly, the interest rates paid by farmers are analyzed, and an attempt has been made to account for the difference in rates by the different institutions. The Federal Land Bank is at present charging 5.5 per cent. This is the lowest rate charged by any of these institutions. This low rate is possible since 1) its securities are exempt from taxation, 2) it does business on a very large scale, and 3) Federal land banks are well known and, therefore, there is a wide market for their securities. Joint stock land banks charge 6 per cent. They are organized by private individuals for the purpose of gains for the stockholders, whereas, in the case of the Federal land banks, the profits of the business are received by the borrowers, largely in the form of lower interest rates on loans. Their securities are likewise exempt from taxation. Insurance companies get an average of 6.47 per cent on loans made directly to farmers. A large portion of the farm mortgages reported by these companies is held by companies located in other states; yet these "foreign" companies charge 6.2 per cent on the average, while Texas companies get an average of 7 per cent. Farm mortgage companies charge an average of 6.94 per cent on first mortgages and 7.5 on second mortgages. The securities of these companies are not exempt from taxation, and they have the function of selling mortgages, which is not true in the case of the insurance companies. The average rate for trust companies is 7 per cent, while that of commercial banks is 8.45 per cent. The farm mortgage companies and Federal and joint stock land banks get a margin of approximately one per cent between the rate charged the farmer and that paid to the investor.

Sixthly, it was found that farm mortgage loans run from one year in the case of the commercial banks to more than thirty years in the case of Federal and joint stock land banks. The loans of farm mortgage and insurance companies fall within these periods. More than 49 per cent of the loans of insurance campanies are made for a five-year period, and approximately 41 per cent are made for ten years, while 32 per cent of the loans of farm mortgage companies are made for five years, and 46 per cent for ten years. The large number of renewals, indicated in the high percentage of current loans made to pay off old mortgages, seems to indicate definitely that the one- five- and ten-year periods are entirely too short.

Seventhly, it was found that a relatively low percentage of the total farm mortgage loans is used for the immediate purpose of buying land and improvments. Of the total amount of the loans of the farm mortgage companies, 57 per cent was used for these immediate purposes; of the joint stock land banks, 12 per cent; of the Federal Land Bank, 15 per cent; of the insurance companies, 28 per cent; and of the trust companies 55 per cent. On the other hand, a relatively high percentage of loans is used to pay off old mortgages, which of course were in most cases originally made to buy land and improvements. Over 33 per cent of the total amount of the loans of farm mortgage companies is used to pay off old mortgages; 78 per cent of the loans of joint stock land banks; 68 per cent of the loans of the Federal land banks; over 53 per cent of the loans of insurance companies; and 33 per cent of the loans of trust companies. These high percentages of loans going to pay off old mortgages are interpreted as meaning 1) that the original loans were made for a period too short for the borrower, or 2) that borrowers are refunding their old loans at a lower interest rate. The latter evidently explains the very high percentage of the loans of Federal and joint stock banks which are used to pay off old mortgages. Another outstanding fact revealed in the analysis of the purposes for which borrowers use these funds is the large amount going to pay off short-time indebtedness, such as debts contracted with local banks and merchants. The portion of the total loans of all these mortgage institutions going for this purpose ranges from 6 to 9 per cent.

Eighthly, it was found that approximately 62 per cent of the mortgage loans of commercial banks are arranged to be paid off in one payment at the maturity of the loan; 46 per cent of the loans of insurance companies are to be repaid in this manner; 92 per cent in the case of trust companies; and 38 per cent of the loans of farm mortgage companies. The next most popular method of repayment required by these four types of institutions is the annual payment plan, while the privilege of paying a part of the note at any time is granted in many cases. All loans of the Federal and joint stock land banks are paid on the amortization plan.

Ninthly, a large percentage of the banks and companies which reported on the effects of the Texas Homestead Exemption Law upon farm mortgage financing hold the opinion that the law is antiquated and should either be abolished or modified. The opinion is about equally divided as to whether this law increases interest rates. It is the consensus of opinion that this law prevents many loans which could otherwise be obtained to the advantage of the borrower.

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